WARONZOF · ASSOCIATES

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Rental Value Appraisal Report

Anchorage Legislative Information Office

Prepared for

ALASKA HOUSING FINANCE CORPORATION

Anchorage, Alaska

As of June 1, 2014

WARONZOF · ASSOCIATES
land economics

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October 15, 2013

Mr. Michael Buller
Deputy Executive Director
Alaska Housing Finance Agency
PO Box 101020
Anchorage, Alaska 99510

Re: Estimate of Rental Value
Anchorage Legislative Information Office – 716 W. 4th Avenue, Anchorage
As of June 1, 2014

Dear Mr. Buller:

Pursuant to your request and authorization, we have completed our analysis and estimate of market rent for the above-referenced property. The purpose of this analysis is to estimate the market rent of the Subject property under the terms and conditions of a proposed lease extension agreement now under negotiation as of its effective date of June 1, 2014. Under the terms of the lease extension agreement, the existing office building will be substantially renovated and expanded and will incorporate 64,048 gross square feet and the adjacent 100 space parking structure. The interest appraised is a leasehold interest, pursuant to the terms of a lease extension agreement now under negotiation. The summary report now in preparation describes the investigation and analysis of market data leading to our conclusions of Market Rent. Our report contains an analysis of and recommendation for purchase price under terms of a purchase option that may be incorporated into the lease extension agreement at a later date.

The primary purpose of this appraisal analysis and report is to fulfill the mandate of Alaska Statute 36.30.083 and to provide an estimate of Market Rent that will facilitate the evaluation of whether or not the proposed rent for the lease extension as negotiated would or would not be "at least 10 percent below the existing market rent value" at the time the lease agreement would "achieved" (effective) under the extended lease agreement. The intended users of this appraisal analysis and report are the Alaska Housing Financing Corporation acting as the tenant's representative for the Alaska Legislative Council, the Alaska Legislative Council and the Legislative Affairs Agency, as administrative agent for the Alaska Legislative Council. No other use of our appraisal analysis or report is authorized.

Pursuant to the requirements of the Appraisal Foundation for summary valuation reports, our report includes descriptions of the Subject property, community and valuation analysis. In preparing this report, standard appraisal techniques have been used in conformity with the guidelines of the Uniform Standards of Professional Appraisal Practice as promulgated by The Appraisal Foundation.

Based upon our investigation and analysis, we have formed the opinion that the estimated Market Rent for a leasehold interest in the renovated and expanded Legislative Information Office building as contemplated by the lease extension agreement now under negotiation, as of its effective date of June 1, 2014, assuming the building is completed per the lease agreement and landlord proposals, is:

THREE MILLION SIX HUNDRED AND FOURTEEN THOUSAND DOLLARS PER YEAR

$3,614,000 PER YEAR

ESCALATING ANNUAL RENT

Our estimate of Market Rent is based on the specific terms and conditions of the lease extension agreement now being finalized. Included in these terms and conditions is an agreement wherein the tenant (Legislative Affairs Agency acting on behalf of the Alaska Legislative Council) will contribute $7.5 million to the cost of the renovation and expansion project for tenant improvements. We refer to this lease as a modified triple-net lease, and under its terms and conditions, the landlord will have certain maintenance and replacement obligations, while tenant will pay normal operating expenses, to include utilities, taxes, insurance and other usual costs of building operations. Our estimate of Market Rent is presented under the assumption that the tenant contributes $7.5 million for tenant improvements costs; thus, the tenant's cost contribution *is* reflected in our conclusion of Market Rent. Our estimate of Market Rent also includes costs to the landlord for certain maintenance and replacement obligations specified under the lease extension agreement.

You have also asked us to express our opinion of Market Rent as if the lease terms and conditions were modified to reflect a level annual rent over the ten year term of the lease extension. Our conclusion of Market Rent stated above contemplates a two percent (2%) annual escalation in rent. We have performed an analysis to convert our estimate of Market Rent from an amount which escalates at two percent annually to a Market Rent estimate that remains level for each year of the ten year lease extension. Based then upon this analysis, we have formed the opinion that the estimated Market Rent for the renovated and expanded Legislative Information Office building, as contemplated by the lease extension agreement now under negotiation, and assuming a level rent payment for each of the ten years of the lease extenion period, as of its effective date of June 1, 2014, assuming the building is completed per the lease agreement and landlord proposals, is:

THREE MILLION NINE HUNDRED AND EIGHT THOUSAND DOLLARS PER YEAR

$3,908,000 PER YEAR

LEVEL ANNUAL RENT

The specific terms and conditions embodied in our conclusion of market rent are fully described within this appraisal report. Our conclusions of Market Rent both incorporate a hypothetical condition that the building is completed per current plans on or about June 1, 2014, and the extraordinary assumption that the terms and conditions of the lease are as presently under negotiation.

Our recommendations for a purchase price under a purchase option provision to be incorporated into the lease extension agreement is also described in our report.

The landlord's proposed rent under the terms and conditions of the lease extension agreement now under negotiation is $247,756 per month plus Waronzof's estimate of the landlord's service obligations under the lease agreement, or $12,687 per month, for a total of $260,443 per month, or $3,125,316 per year, with rent escalations of 2% per year over the ten year term of the lease extension. We find that for an escalating lease, the proposed contract rent of $260,443 per month represents 86.48% of our Market Rent conclusion of $301,167 per month ($3,614,000 annually).

Landlord has also agreed to a level annual equivalent rent of $3,379,658 per year, or $281,638 per month, for each of the ten years of the lease extension, inclusive of the service obligation cost component, under an alternative rent escalation structure. Our Market Rent conclusion, under a level rent structure for ten years, is $3,908,000 per year, or $325,667 per month. We find that for a level lease, the proposed contract rent of $281,638 per month also represents 86.48% of our Market Rent conclusion.

Accordingly, we are able to conclude that the proposed contract rent for the lease extension agreement now under negotiation is, in fact, "at least 10 percent below the existing market rent value" pursuant to AS 36.30.083, based upon this Rental Value appraisal analysis and our understanding of the proposed terms and conditions of the lease extension agreement now under negotiation.

This appraisal report sets forth the identification of the property evaluated, property rights appraised, limiting conditions and assumptions of this analysis and report, pertinent facts about the Subject property, community area and current market conditions, an analysis of project costs, investor rates of return, relevant property transactions, and the analysis of this data leading to the conclusions of rental value stated above.

We note that our conclusions of Market Rent were conveyed to you by letter on September 18, 2013 in order to assist you and the parties in completing negotiations. The conclusions of this analysis were reached and communicated to you as of September 18, 2013; the following narrative appraisal report transmits the written report that accompanies our opinions of Market Rent.

Thank you for allowing us the opportunity to complete this interesting and challenging appraisal assignment for you. We anticipate completion of our narrative appraisal report in the next day; we are transmitting this letter as evidence of our final conclusions of Market Rent. Please contact Timothy Lowe, MAI, CRE, FRICS at (310) 322-7744 with any questions or comments concerning this letter.

Respectfully submitted,

WARONZOF ASSOCIATES, INC.

Timothy R. Lowe, MAI, CRE, FRICS
Principal

EXECUTIVE SUMMARY

Subject Property:	An expanded and renovated 64,068 gross sf six story special purpose office building leased for ten years to the Alaska Legislative Affairs Agency on behalf of the Alaska Legislative Council, serving as the Anchorage Legislative Information Office.
Location:	716 & 712 W. 4th Avenue, Anchorage, Alaska 99501
Property Owner:	716 West Fourth Avenue, LLC or affiliate
Property Rights Appraised:	Leasehold interest, subject to specific terms and conditions of a lease extension agreement now under negotiation.
Date of Value:	June 1, 2014; the effective date of the lease extension.
Hypothetical Conditions:	Completion of the building and availability for occupancy on or about the lease extension date.
Extraordinary Assumptions:	Estimate of Market Rent expressed solely in the context of the lease extension agreement now under negotiation.
Site Description:	31,129 sf corner site, zoned B2-B
Existing Building Improvements	Existing six story office building containing 45,623 sf Existing commercial building containing 11,630 sf Existing approximately 100 space two level parking structure, containing approximately 40,000 sf.
Proposed Building Improvements	Six story office building with basement, containing 64,048 sf
Highest and Best Use	
If Vacant:	Office, Hotel, Retail or Commercial Development
As Improved as Proposed:	Special purpose occupancy by state agency.
Valuation Analysis	
Market Rent – Project Cost & Rate of Return	$3,614,000 per year (Year One of a ten year lease)
Direct Rent Comparison	[to be determined]
Conclusion of Market Rent	$3,614,000 per year (Year One of a ten year lease)

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INTRODUCTION

The Subject property consists of the proposed renovated and expanded Anchorage Legislative Information office located at 716 West 4th Avenue in downtown Anchorage. The existing Legislative Information Office ("LIO") office consists of the leasehold occupancy of a six-story office building and adjacent two level parking structure. The office building contains a reported 45,623 sf[1] on seven levels (including a basement); the existing lease agreement includes 22,834 sf located on the 2nd through 6th floors of the building, plus basement storage space, and the entirety of the adjacent parking structure providing parking for approximately 100 cars.

Renovated and expanded, the building will contain a reported 64,048 gross square feet ("gsf"), occupying the existing six story building and basement, but with the addition of a newly-constructed elevator, lobby and lavatory core (six stories plus basement) on the (acquired) adjacent property lying to the east (712 West 4th Avenue). The existing commercial building on that site will be substantially demolished and an expanded ground floor and basement will be constructed. The ground floor and basement of the renovated and expanded building will contain 11,549 sf and 10,500 sf per floor; and the second through sixth floors will each contain 7,968 gross sf per floor.

The renovation of the existing building will be substantial. Following demolition of the existing interior improvements and masonry walls on the west and east walls of the building, only the structural steel frame, footings and foundation of the existing building will remain. All building surfaces, materials and systems will be new following the renovation and expansion; only the structural steel frame, foundation and footings will remain from the original 42 year old structure. But for the eastern basement wall, none of the acquired building at 712 W. 4th Avenue will remain; it will be fully demolished and replaced. The existing parking structure lying west of the six story office tower will remain in its entirety, having only limited improvements and enhancements as part of the renovation and expansion of the LIO Building.

As contemplated under the lease extension agreement now under negotiation, the LIO offices would be relocated to temporary quarters during the course of construction and renovation; at this writing, the dates of relocation and date of completion of the renovated and expanded building have not yet been set. One additional commercial tenant now located in the building will relocate upon expiration of their lease on December 31, 2013.

The current LIO lease agreement was signed in 2004, with a scheduled expiration on May 31, 2009, and also having five one-year options for extension. The absolute expiration of the lease is May 31, 2014. Contract rent for the final extension option is $682,356.48 per year, or

[1] Municipality of Anchorage tax assessment records.

$29.88/sf/year or $2.49/sf/month. This is a full service gross lease, with the landlord providing all building services for normal operations. Reportedly, the LIO occupancy in the Subject property dates originally to 1994.

Over the past several years, the Legislative Affairs Agency ("LAA"), acting on behalf of the Alaska Legislative Council, has attempted to procure alternative facilities for the Anchorage LIO office; we have reviewed Requests for Information and Requests for Proposals as early as 2002 and as recent as 2013 in which the LAA seeks to identify either new or existing office buildings that might meet the needs of the Anchorage LIO and otherwise fulfill the programmatic and project cost requirements of the Legislative Council. To date, these many efforts and proposals have not met with success, approval or acceptance. These many efforts ultimately demonstrate that the collective requirements of the Legislative Council, coupled with the available inventory of existing and proposed office space in Anchorage, are sufficiently specialized that the existing inventory of office buildings, and/or new build to suite construction of a building do not or can not meet the requirements of the Legislative Council. The inability of the Anchorage office market to fulfill these requirements – either with existing or new construction – is a significant factor in this appraisal analysis, and underlies our conclusion that the Subject property and proposed renovation and expansion should be regarded as a *special purpose* or *limited market* property.

Reportedly, idea of substantially renovating and expanding the LIO office emerged some months ago, and this proposal has been refined and under negotiation through the spring and summer 2013. The Legislative Council has reviewed the proposed terms of the lease extension, including the nature of the expansion and renovation and has approved the project in concept, leading to the current efforts to finalize the negotiation and terms of the lease extension (described later in this report).

To date, the lease negotiation has been conducted with the expectation of the parties (landlord and tenant LAA) that the rent resulting from this negotiation would fulfill the requirements of Alaska administrative code:

> ***Chapter 36.30. STATE PROCUREMENT CODE***
>
> ***Sec. 36.30.083. Lease extensions authorized.***
>
> *(a) Notwithstanding any other provision of this chapter, the department, the Board of Regents of the University of Alaska, the legislative council, or the court system may extend a real property lease that is entered into under this chapter for up to 10 years if a minimum cost savings of at least 10 percent below the market rental value of the real property at the time of the extension would be achieved on the rent due under the lease. The market rental value must be established by a real estate broker's opinion of the rental value or by an appraisal of the rental value. (our emphasis)*

Thus the primary purpose of this appraisal analysis and report is to fulfill the mandate of Sec. 36.30.083 and, in effect, perform a test as to whether or not the proposed rent for the lease extension as negotiated at this time would or would not be "at least 10 percent below the existing market rent value" at the time the lease agreement would "achieved" (effective) under the extended lease agreement.

At this writing, and described in greater detail in this report, the proposed rent for the expanded and renovated building would be an estimated $260,443 per month or $3,125,316 per year, on a modified net basis for the reported 64,048 gsf building. This is a rental rate of $48.79/gsf/year or $4.07/gsf/month. Under the terms of the lease extension, the tenant would bear the expense of operating utilities, insurance and property taxes, and certain light maintenance, while the landlord has specific obligations for the maintenance, repair and replacement of specified building systems and surfaces. Also, as presently contemplated, the tenant will directly contribute $7,500,000 to the cost of the project as payment of the costs of basic, first generation tenant improvements in the building.

We note that the building improvements contemplated in these negotiations include a number of specialized building systems and tenant improvements that are part of the programmatic requirements of the Legislative Council, and which are different from or exceed the capabilities of most good quality office buildings located in Anchorage; thus we can say that, as contemplated by the lease extension agreement now under negotiation, the building has "over-standard" tenant improvements. These requirements may, in part, explain why the prior efforts of the LAA to procure alternative quarters have not been successful. Further, the Anchorage stock of privately-owned office buildings has evolved in a manner that results in the amount of space required by the Anchorage LIO (60,000 gsf +/-) or in a location that meets their mandate to remain located in the Anchorage central business district, along with many other federal, state and municipal agencies and offices.

Consequently, this appraisal analysis and report seeks to estimate a market rent for the Subject property as contemplated by the landlord and tenant, under the specific terms and conditions of a lease now in negotiation, for an office building and specialized office occupancy which we regard (collectively) as special purpose or limited market and which contains building improvements, systems and features that are also specialized and beyond the tenant improvements and building amenities typically found in a good quality Class A Anchorage office buildings.

Our client, AHFC, has advised us that, in conjunction with this valuation, it is the interpretation of the LAA agency legal council that the rental value estimate is to take into account all of the special terms and conditions and provisions of the lease agreement and that the rental value estimate should reflect the rental value of "this building and this transaction."

Waronzof has also been asked to estimate a purchase price for the building under the terms of a purchase option that would be incorporated into the lease extension agreement.

Waronzof has been engaged by the Alaska Housing Finance Corporation ("AHFC") through its agent First Southwest Corporation, AHFC's financial advisor. AHFC is serving the Alaska Legislative Council as an advisor and tenant representative in the negotiations with the landlord, 716 West Fourth Avenue, LLC. The designated individual at AHFC is Michael Buller, Deputy Executive Director. The designated agent on behalf of landlord is Mark Pfeffer of Pfeffer Development. Overseeing the negotiation on behalf of the Alaska Legislative Council is Council Chair Representative Michael Hawker.

The intended users of this appraisal analysis and report are AHFC and its agent, First Southwest, the Alaska Legislative Council and the LAA as the administrative agent for the Legislative Council. No other use of this appraisal is anticipated or authorized by Waronzof without its express written permission.

The Appraisal Analysis and Report

This analysis and report is presented in a summary format and has been organized into several sections. These sections include an Introduction, which contains background information regarding the Subject property and definitions used in the appraisal; the Property Description section, which contains descriptions of the Subject property; the Market Analysis section, which includes information regarding current market conditions; a brief discussion of the Highest and Best Use of the property and finally our Property Valuation analysis sections, which contain the methodology and valuation analyses used in this assignment, leading to our conclusions of rental value and a purchase price under a proposed purchase option.

Scope of the Valuation

Waronzof's scope of work in this assignment has been determined based upon our consideration of:

Scope of Work Assignment Elements	***Appraiser Response***
i) the client and any other intended user	*AHFC, the Alaska Legislative Council and the Legislative Affairs Agency (as administrative agent for the Legislative Council).*
ii) the intended use of the appraiser's opinions and conclusions	*To estimate the rental value of the office space contemplated by a draft lease extension agreement to be effective June 1, 2014 as well as a purchase option price under the terms of an option agreement to be incorporated into the lease extension agreement.*

iii) the type and definition of market value	*Market value, in exchange*
iv) the effective date of the appraiser's opinions and conclusions	*June 1, 2014*
v) the subject of the assignment and its relevant characteristics	*A substantially renovated and expanded office building located in downtown Anchorage under the terms of a single-tenant lease extension agreement.*
vi) assignment conditions	*Lease terms and conditions as reflected in a lease extension agreement now under negotiation.*

Waronzof's scope of work is then a reflection of the above assignment elements and our response to these elements.

Our scope of work has included:

- We inspected the neighborhood surrounding the Subject property to identify development trends and to identify the character of existing development.

- We inspected the Subject property to evaluate its history, physical characteristics and linkages to surrounding properties and the nearby community.

- We have reviewed the plans, outline specifications and proposed costs of the renovated and expanded building, as well as the terms and conditions of a lease extension agreement now under negotiation.

- We have reviewed numerous documents related to the prior efforts to procure alternative office space for the Anchorage LIO, as well as documents describing the administrative and procurement efforts of the Alaska Legislative Council leading to this planned lease extension.

- We have evaluated the programmatic requirements of the tenant and its occupancy incidental to our evaluation of local good-quality office buildings to meet these requirements now and in the future. We have reviewed the procurement history of this occupancy, including efforts to solicit proposals for lease or build-to-suit occupancy over several years from 2002 to 2013.

- We consulted with various knowledgeable market sources and used published information to assess present market conditions influencing similar properties in this market.

- We have carefully reviewed the proposed costs of the renovated and expanded office building in order to both understand the scope of work and capability of the completed building, as well as to identify other recent projects for public and private tenants, in order to

validate the construction costs and occupancy costs proposed by landlord.

- Field research was performed to identify sales (and current offerings) and leases (and current offerings) of improved properties, and to identify sales (and current offerings) of vacant office buildings in the Subject's market area.

- We obtained rental rates in the Subject's market area for our Income Approach analysis, and completed an analysis of historic operating expenses for the Subject property.

- We consulted several sources of investor rate of return requirements for comparable investments. These rates were analyzed in order to select appropriate capitalization rates in our rental value analysis and estimate of purchase option price.

- We completed a survey of comparable sales of improved office properties and vacant land to support our rental value estimate.

- We applied the above to form our opinion of the rental value of the Subject property, completed as contemplated as of June 1, 2014.

- We have separately evaluated the purchase option price of the Subject property under the contemplated terms of the lease extension agreement now under negotiation.

We believe that our valuation analysis provides a credible and reliable estimate of market value and that our scope of work is both sufficient and clearly described. No relevant approach to value has been excluded. It is our intention that this valuation report conforms to USPAP standards as described for a summary appraisal report. Timothy R. Lowe, MAI, CRE, FRICS complies with the competency provisions of USPAP as a consequence of his formal education, real estate appraisal education and training, and prior experience in the valuation and analysis of like and similar properties. We want to acknowledge the assistance of our client, AHFC, the Legislative Council leadership and staff and Pfeffer Development in the assembly of information necessary for our review and completion of this assignment. We also want to acknowledge the assistance in market data gathering of Per Bjorn Rolli, MAI of Reliant Advisors and Steve Carlson, MAI of Black-Smith, Bethard & Carlson, both of Anchorage.

Identification of the Property

716 West Fourth Avenue and 712 West Fourth Avenue, Anchorage, Alaska.

The property comprising Assessor Parcel Numbers 002-105-26 and -49 located in the Municipality of Anchorage.

History & Ownership of the Property

No property purchase or sale transactions have been reported in the last five years. Landlord 716 Fourth Avenue, LLC has owned the Subject property (716 W. Fourth Avenue) since before the existing lease agreement was initiated in June 2004.

At this writing, the existing commercial building at 712 West Fourth Avenue is under contract for sale to Pfeffer Development Corporation for a reported purchase price of $2,850,000, with closing scheduled on or about September 23, 2013. This transaction is directly related to the proposed renovation and expansion of the LIO Office Building.

Purpose of the Valuation

To estimate the rental value of the Subject property as contemplated under the proposed renovation and expansion plan for the building and the proposed terms and conditions of a lease extension agreement now under negotiation, with an effective date of June 1, 2014.

Prior Service

Neither Timothy Lowe nor Waronzof has valued the property that is subject of this appraisal at any point in the past.

Relevant Dates

Effective Date of the Valuation Analysis

June 1, 2014

Property Inspection Date(s)

The Subject property was inspected by Timothy Lowe on September 3, 2013.

Report Preparation Period

September 2013

Property Rights Valued

Leasehold interest – rental value under the terms of a proposed lease extension now under negotiation.

Definitions

Market Value

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated.
2. Both parties are well informed or well advised, and acting in what they consider their own best interests.
3. A reasonable time is allowed for exposure in the open market.
4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto.
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale[2].

Limiting Conditions & Assumptions

1. The title to the Subject property is assumed to be marketable, and the Subject property is assumed to be free and clear of all liens and encumbrances.

2. No liability is assumed for matters that are legal or environmental in nature.

3. Ownership and management are assumed to be in competent and responsible hands.

4. No architectural or engineering study, property survey, soil study, or environmental investigation has been made, and no liability is

[2] Office of the Comptroller of the Currency under 12 CFR, Part 34, Subpart C - Appraisals, 34.42 Definitions [f]

assumed in connection with such matters. The described physical condition of any improvements is based on visual inspection only, and it is assumed that there are no hidden or unapparent physical conditions affecting value. Dimensions and areas supplied by others, or based upon field measurements, are subject to survey by qualified professional surveyors or architects.

5. Any improvements are assumed to be in accordance with local zoning and building ordinances as well as all applicable federal, state, and local laws and regulations, except as noted. Any plans, diagrams or drawings provided are intended solely to facilitate understanding and are not meant to be used as reference in matters of survey. The legal description furnished should be verified with the aid of competent legal counsel.

6. The valuation will be prepared for the specific objective stated and shall not be used for any other purposes without the written permission of Waronzof Associates.

7. The signatories shall not be required to give further consultation or testimony, or appear in court or at any public hearing with reference to the property appraised, unless prior arrangements have been made by the Client with Waronzof Associates.

8. Unless otherwise stated, no responsibility is assumed for any damages sustained in connection with actual or potential deficiencies or hazards such as, but not limited to, inadequacies or defects in the structure, design, mechanical equipment or utility services associated with the improvements, air or water pollution, noise, flooding, storms or wind, traffic and other neighborhood hazards, radon gas, asbestos, natural or artificial radiation, or hazardous materials or toxic substances of any description, whether on or off the property appraised.

9. This report is intended to be read and used as a whole and not in parts. Separation of any section or page from the main body of the report is expressly forbidden and invalidates the report.

10. Any projections of future rents, expenses, net operating income, mortgage debt service, capital outlays, cash flows, inflation, capitalization rates, yield rates or interest rates are intended solely for analytical purposes and are not to be construed as predictions of the appraisers. They represent only the judgment of the authors as to the assumptions likely to be used by purchasers and sellers active in the market place, and their accuracy is in no way guaranteed.

11. It is assumed that all necessary licenses, agreements, etc. remain in full force and effect in order to continue the operations of the Subject property as a going concern throughout the financial analysis period of this appraisal, unless otherwise noted.

12. Possession of this report does not carry with it the right of publication. It shall be used for its intended purpose only and by the

parties to whom it is addressed. Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, or other media without the written consent or approval of the author. This applies particularly to value conclusions, the identity of the appraiser or firm with which it is connected, and any reference to the Appraisal Institute or MAI designation.

13. Property values are influenced by a large number of external factors. The information contained in the report comprises the pertinent data considered necessary to support the value estimate. We have not knowingly withheld any pertinent facts, but we do not guarantee that we have knowledge of all factors that might influence the value of the Subject property. Due to rapid changes in external factors, the value estimate is considered reliable only as of the effective date of the appraisal.

14. The appraisers reserve the right to make such adjustments to the analyses, opinions, and conclusions set forth in this report as may be required by consideration of additional data or more reliable data which may become available.

15. The date of value to which the conclusions and opinions expressed in this report apply is set forth in the letter of transmittal and the appraisal document. The dollar amount of any value opinion rendered in this report is based upon the purchase power of the U.S. dollar existing on that date.

16. This appraisal report or valuation shall not be used in any matters pertaining to any real estate or other securities offering, registration, or exemption with any state or with the federal Securities and Exchange Commission.

17. If this report is placed in the hands of anyone other than the Client, the Client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussions. The appraiser is in no way to be responsible for any cost incurred to discover or correct any deficiencies of any type present in the Subject property, physically, financially, and/or legally. The Client also agrees that in case of lawsuit (brought by lender, partner or part owner in any form of ownership, tenancy or any other part), Client will hold appraiser completely harmless from and against any liability, loss, cost or expense incurred or suffered by appraiser in such action, regardless of its outcome.

18. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

19. The Americans with Disabilities Act (ADA) became effective January 26, 1992. Waronzof Associates has not made a specific compliance survey and analysis of the Subject property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the Subject property,

together with a detailed analysis of the requirements of the ADA, could reveal that the Subject property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the Subject property. Since Waronzof Associates has no direct evidence relating to this issue, Waronzof Associates did not consider possible noncompliance with the requirements of the ADA in estimating the value of the Subject property.

Special Assumptions & Conditions

Hypothetical Conditions – "that which is contrary to what exists but is supposed for purposes of the analysis".

- This appraisal analysis and report assumes that, as of the prospective valuation date of June 1, 2014, the renovated and expanded Subject property is completed pursuant to the renderings, building plans, cost estimates and other information about the condition, quality and appearance of the Subject property upon completion of renovation and expansion.

Extraordinary Assumptions – "an assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions".

- This appraisal analysis and report expresses its opinion of market rent solely in the context of the terms and conditions of the lease extension agreement now under negotiation, including information about these terms and conditions conveyed to us by AHFC and the Alaska Legislative Council. If the terms and conditions of the proposed lease extension agreement are materially changed, our opinion of rental value may change.

Certification of the Appraiser

The undersigned hereby certify, except as otherwise noted in this report, that to the best of our knowledge and belief:

The statements of fact contained in this report are true and correct.

The report analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal unbiased professional analyses, opinions, and conclusions. No matters affecting the value conclusion have been knowingly withheld or omitted.

This report sets forth all of the limiting conditions (imposed by the terms of our assignment or by the undersigned) affecting the analyses, opinions and conclusions contained in this report.

We have no present or prospective interest in the Subject property, and we have no personal interest or bias with respect to the parties involved.

Our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report, including a minimum value, specific value or loan approval.

Our analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation and the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.

The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

In the past five years, Timothy Lowe, MAI, CRE, FRICS has not performed an appraisal of the Subject property or otherwise consulted on the Subject property.

As of the date of this report, Timothy R. Lowe, MAI, CRE, FRICS has completed the requirements of the continuing education program of the Appraisal Institute.

Mr. Lowe has inspected the Subject property.

This appraisal report summarizes the investigation, analysis, and conclusions of Waronzof Associates.

Timothy R. Lowe, MAI, CRE, FRICS

PROPERTY DESCRIPTION

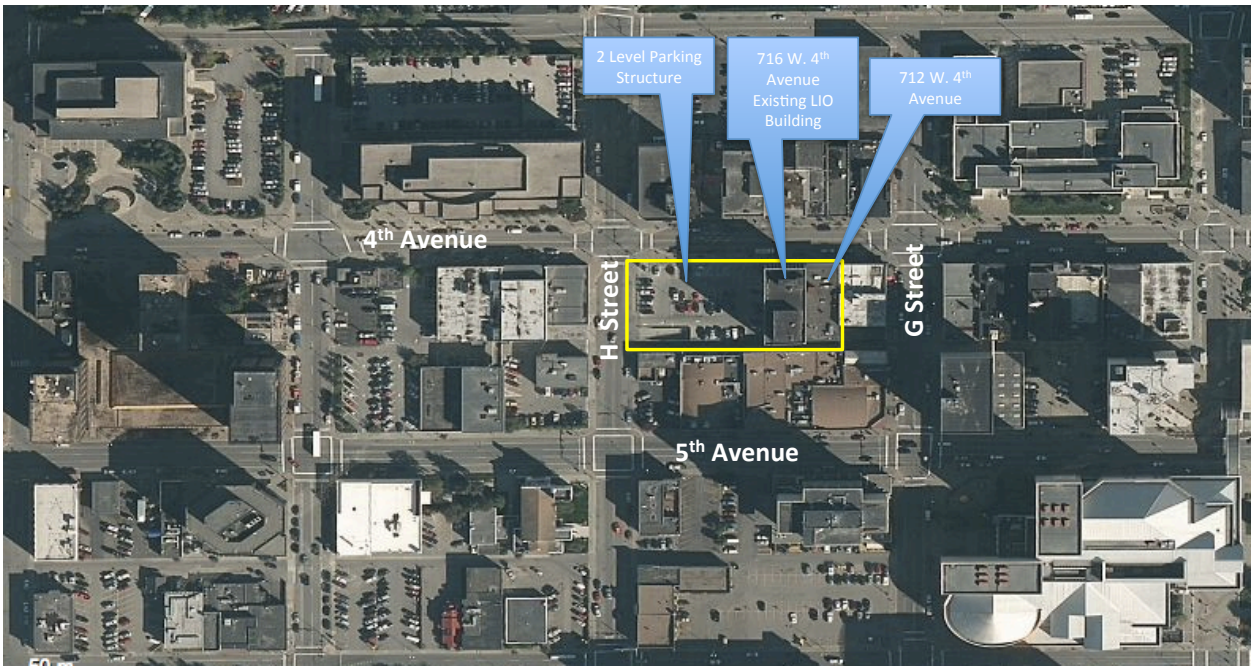
Source: Pfeffer Development
Looking southeast at 4th Avenue frontage and entry.

Site Description

Site Location

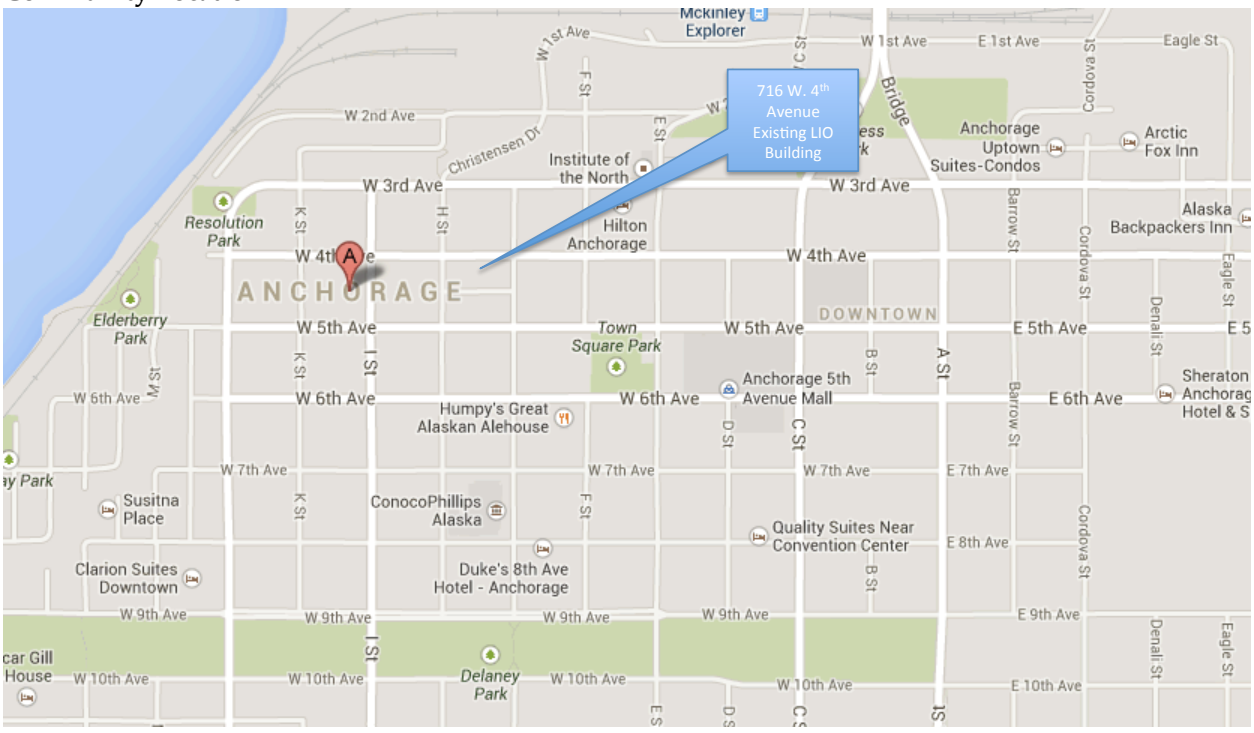
The Subject property is located at 716 West 4th Avenue in the Anchorage central business district.

Aerial Photograph – Subject Property (Boundaries are approximate)



Source: Bing Maps, Waronzof

Community Location



Source: Google Maps, Waronzof

Site Conditions

Area, Frontage & Shape

Area: A reported 31,129 sf or .714 acres

Shape: Rectangular, approximately 239′ X 130′; 239′ of frontage on Fourth Avenue; approximately 130′ frontage on H Street.

Topography & Site Cover

The Subject property is level and at grade with surrounding properties and the street improvements. The site is fully developed and will be upon completion of proposed improvements.

Soils Conditions

Exposed soils at and around the Subject property are dry sandy, loam soils that appear typical of the area, and which appear suitable for typical development noted in the area.

Street Access & Visibility

Street Access: Street access is provided to the Subject property by Fourth Avenue, H and G Streets and by a public alley traversing the southern boundary of the site. Downtown Anchorage streets are two and four lane commercial collectors and arterials, generally occupying a 60′ and wider right of way. Street improvements include asphalt paving, curb, gutter and sidewalks, street lighting, controlled intersections and other transportation improvements and amenities.

Regional access to the Anchorage central business district ("CBD") is provided by several state highways and major arterials, including the 5th and 6th Avenue couplet (east-west), L Street (leading to the Minnesota Bypass and south Anchorage, the A and C Street couplet (north-south) and the Seward and Glenn Highways, connecting the Anchorage Bowl with points south and north, respectively.

Public Utilities & Services

All public utilities and public safety services are available to the Subject property, including water, sanitary sewer, storm sewer, natural gas, electricity and CATV.

Easements & Encumbrances

We have not been provided a recent title report for the Subject property. Based on physical inspection of the property, review of aerial photographs and assessor records, there are no obvious easements that would impair the utility of the Subject property for the continuing use of the site for office, commercial or retail purposes.

Zoning & Land Use Regulation

The Subject property is zoned B2-B, Central Business – Intermediate

"The B2-B district is intended to create financial, office and hotel areas surrounding the predominantly retail and public institutional core of the central business district. The district also permits secondary retail and residential uses. The residential uses are intended to support other downtown activities."[3]

A wide variety of retail and commercial uses are permitted within this zoning category, including the existing use of the Subject property.

We note that Anchorage has a public policy of encouraging and incenting the location of federal, state and local government offices in the central business district. This policy is incorporated into the municipal comprehensive land use plan. According to the publication "Welcome to Our Neighborhood – Locating Government Offices and Services Downtown, published by the Alaska Industrial Development & Export Authority and the Alaska Energy Authority:

"Anchorage 2020 "General Land Use Policy #18" (pg. 71) calls on policymakers to "strengthen the Central Business District's role as the regional center for commerce, services, finance, arts and culture, government offices, and medium- to high-density residential development," and "General Land Use Policy #19" specifically calls for policies that "locate municipal, state, and federal administrative offices in the Central Business District,", while The Downtown Comp Plan (pg. 44) calls on policymakers to make "Downtown a priority location for federal, state and local government administrative employment and services."[4]

This land use policy of the Municipality of Anchorage both influences the requirements of the Alaska Legislative Council in the location of its Anchorage LIO as well as reflects the twenty year history of the LIO in its existing location as part of the fabric of government offices located with a five to seven block radius of one another.

Also very significant about this zoning category is the absence of any on-site parking requirement for permitted uses. The Municipality of Anchorage, acting through its Development Authority, has constructed numerous parking structures in the central business district, the nearest two blocks south of the Subject property. Commercial surface parking lots are available throughout the downtown area.

Environmental Conditions

Flood Hazard – According to local area FEMA Maps, Panel # 06059C0013E, the Subject property is not located in a flood hazard area.

[3] Title 21; 21.40.160 B2-B zoning description.

[4] Alaska Industrial Development & Export Authority and the Alaska Energy Authority, Government Offices and Services Downtown, August 16, 2011, pg 7.

Seismic Hazard – The Subject property lies in an area of known seismic activity. According to Seismic risk assessment maps published by the Municipality of Anchorage, the Subject property lies in an area designated "Zone 4-High Ground Failure Susceptibility".

Waronzof has conducted no detailed examination of the environmental status of this property. No obvious forms or sources of hazardous materials or environmental contamination were noted during our inspection. None were reported by the Client to us. Our analysis assumes that this property does not contain any toxic or hazardous materials, and is otherwise in compliance with all environmental regulations and requirements. We have not been provided with any environmental assessment report for this property. Hence, we have no information about surface or sub-surface conditions, and we have assumed that no adverse conditions exist. The reader of this report is cautioned to obtain a current environmental report before proceeding with any use of this property.

Property Taxes & Assessed Valuation

According to 2013 Municipality of Anchorage property tax records, the Subject property has a total taxable value:

Parcel ID	Address	Land	Building	Total
002-105-49	716 W. 4th Ave.	$1,611,600	$2,125,500	$3,737,100
002-105-26	712 W. 4th Ave.	$318,400	$786,000	$1,104,400
Combined		$1,930,000	$2,911,500	$4,841,500
2013 Mill Rate				15.56
Estimated 2013 Property Taxes				$75,334

Adverse Influences

Located on 4th Avenue across the street from the Subject property are several bars; there are unconfirmed reports of higher than normal levels of alcohol-related incidents associated with these bars.

Adjacent Properties

The general character of the surrounding neighborhood is consistent with the pattern of development in downtown Anchorage – a mix of low and mid-rise office, commercial and retail development. Significantly, there are a number of state office buildings nearby, including the downtown Anchorage court house complex and the Snowden Court Administration Center, the former Anchorage Post Office (now a Federal Lands Information Center), the Municipality of Anchorage headquarters office and the Atwood State Office Building, as well as other community-serving facilities, such as public parking structures and transit center.

Surrounding development includes the following:

North: Single story retail and commercial buildings; low-rise office buildings.

South: Restaurant, retail and hotel development; Glacier Brewhouse, Orso, Westmark Hotel, Anchorage Performing Arts Center, Town Square Park.

East: Office and retail development; historic 4th Avenue Theatre, historic Anchorage City Hall.

West: Immediately west of the Subject property is located the state courthouse complex, Snowden building, Hotel Captain Cook, and additional office and low-rise retail and office development.

Conclusion

The Subject site is a well-located level ¾ acre corner site located along west 4th Avenue. Assembled to its 31,129 sf size, the site is a logical alternative for office development – particularly state office occupancy – due to its proximity to the Anchorage courthouse complex and Municipal headquarters. Other possible uses include a small full service or limited service hotel, office development or mixed use building.

Building Improvements Description

The Subject property, once completed, will consist of a six story office building and companion two level parking structure. The following are building renderings and floorplans provided by Pfeffer Development:

Source: Pfeffer Development

Looking northwest, along alley frontage; rear entry and loading dock at right.

General Building Description

As proposed, the building improvements (upon completion) will consists of a six story office building and basement with accompanying (approximate) 100 space two level parking structure (located on the western portion of the site).

The building will provide for a variety of functions and services of the Legislative Information Office, including provision of local offices for legislators and their staffs, hearing and teleconference rooms for legislative hearings and similar functions, office space for legislative leaders, a legislative library and storage and staging area to accommodate the twice-yearly move of legislative offices from Anchorage to Juneau and back (in conjunction with the operation of the Alaska Legislature while in session in Juneau from January through April or May of each year).

The following is a room count and area summary of the building:

Summary of Building Rooms and Building Area

	Ground Floor	2nd Floor	3rd Floor	4th Floor	5th Floor	6th Floor	Roof/Penthouse	Basement	Total Rooms
Lobby	2	1	1	1	1	1		2	9
Auditorium	1								1
Large Conf. Room	1			2					3
Pre-Function Area	1								1
Std. Conf. Room		1	1		1	1		2	6
Elevators	2	2	2	2	2	2		2	2
Stairwell	2	2	2	2	2	2			2
Offices	1	16	16	14	16	16			79
Restrooms	2	2	2	2	2	2		2	14
Mechanical Room	2						1	2	5
Conf. & Training								1	1
Copy Room		1	1	1	1	1			5
Freight Elevator	1							1	1
Info. Technology								3	3
Corridor	1	1	1	1	1	1		1	7
Janitorial/Supplies		1	1	1	1	1		1	6
Electrical & Phone Room	1	1	1	1	1	1		1	7
Audio/Visual Room	1							1	2
Library	1								1
Security Office	1								1
Outdoor Area		1							1
Staging/Storage Area								1	1
Loading Dock/Area	1								1
Garage Access								1	1
Gross Area by Floor	11,549	7,968	7,968	7,968	7,968	7,968	1,659	10,500	63,548
Usable Area by Floor	10,374	6,964	6,964	6,964	6,964	6,964	-	9,806	55,000

Source: Waronzof, KPB Architects

Note: The above schedule was obtained following completion of negotiations and reflects a gross building area of 63,548 gross square feet of building, some 500 sf less than the 64,048 sf that was the basis for negotiations. While we note the above for descriptive purposes, this appraisal is completed based on the assumption that the gross building area is 64,048 sf.

The office building, once complete, will be considered a construction class A steel frame office building, with portions of the building (ground floor and basement) of concrete masonry construction. Construction quality is expected to be good to excellent, and building features and functions are consistent with the Marshall Valuation (a national construction cost index) "excellent" ranking.

Source: Pfeffer Development

Looking south at 4th Avenue frontage and building entry.

The building will have modern HVAC and MEP systems, providing heating, cooling, air circulation and plumbing and other mechanical services throughout the building.

The office tower portion of the building will, as shown in the accompanying floorplans, be predominantly improved with legislative offices, with most offices arranged in a two-office configuration that provides reception and staff open office area, and an interior, private office for the legislator. Each typical floor has a small

Source: Pfeffer Development

Looking southwest along 4th Avenue frontage and building entry. Existing development at left.

conference room, copy room and a large office at the north end of the floor. The 4th floor has a different configuration, intended to accommodate legislative leadership as well as to provide two large conference rooms for LIO use.

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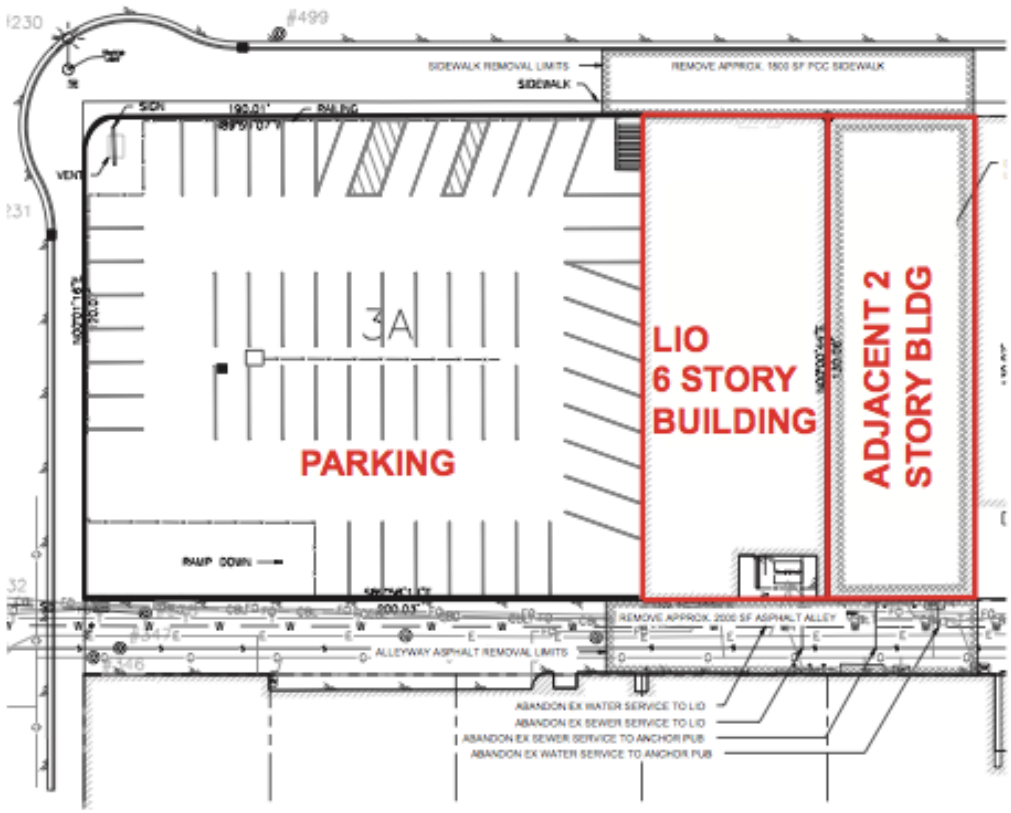
Site Plan

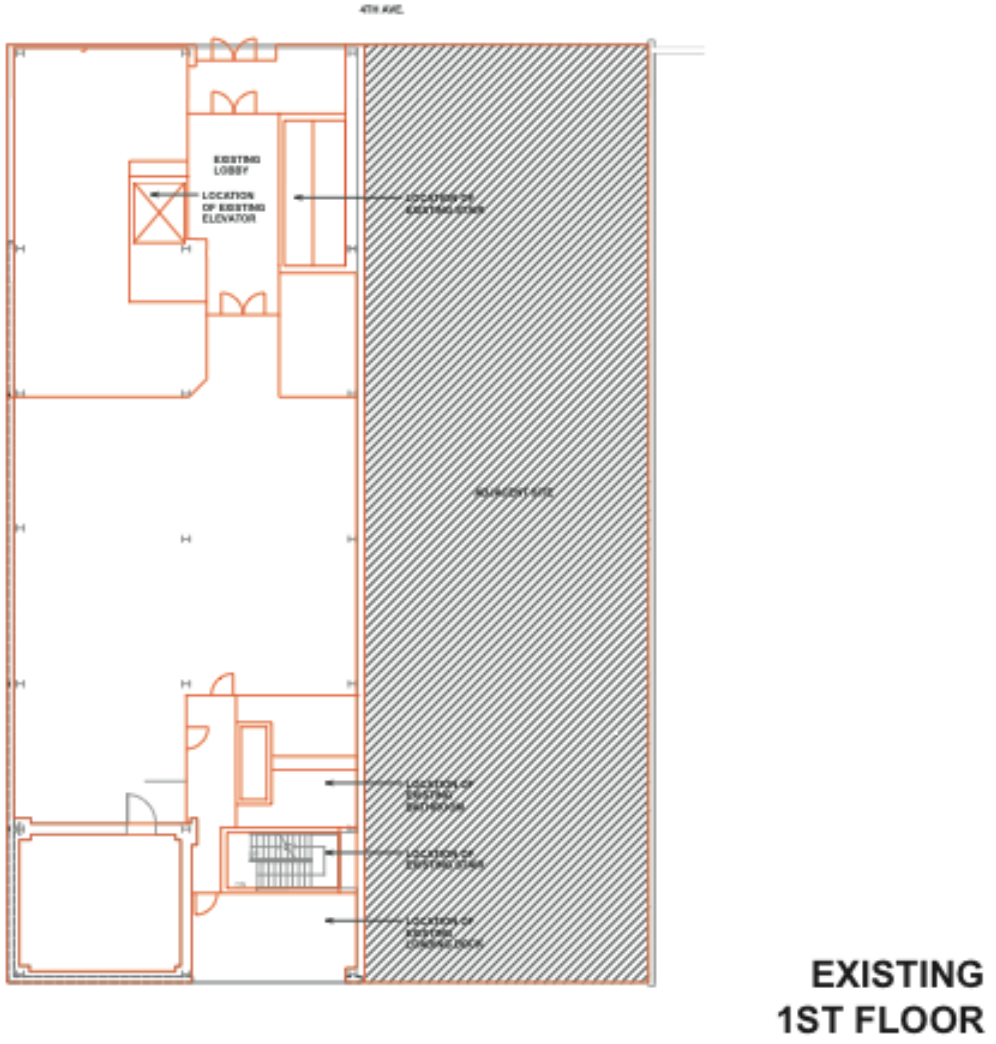


Source: Pfeffer Development

The ground floor of the building accommodates public entry (lobby, security) and public meetings, particularly legislative hearings, and both the auditorium and large (divisible) conference room will have substantial audio and visual equipment for telecommunications with parties and conference rooms in Juneau and elsewhere in the state. Also located on the ground floor is the public Legislative Library, where the public can obtain information on legislation pending and passed.

One very unusual feature of the LIO occupancy which influences the features and capabilities of the building is the twice-yearly relocation of legislative offices from Anchorage to Juneau and back as each annual session of the legislature commences in January and closes in April or May. This means that personnel, office furnishings and equipment, files and documents and other contents are assembled and shipped. Consequently, the building has a storage and staging area located adjacent to a freight elevator on the ground floor and basement levels to manage the actual shipping and receiving of the equipment, files and furnishings used in the LIO function.

Existing Building Ground Floor



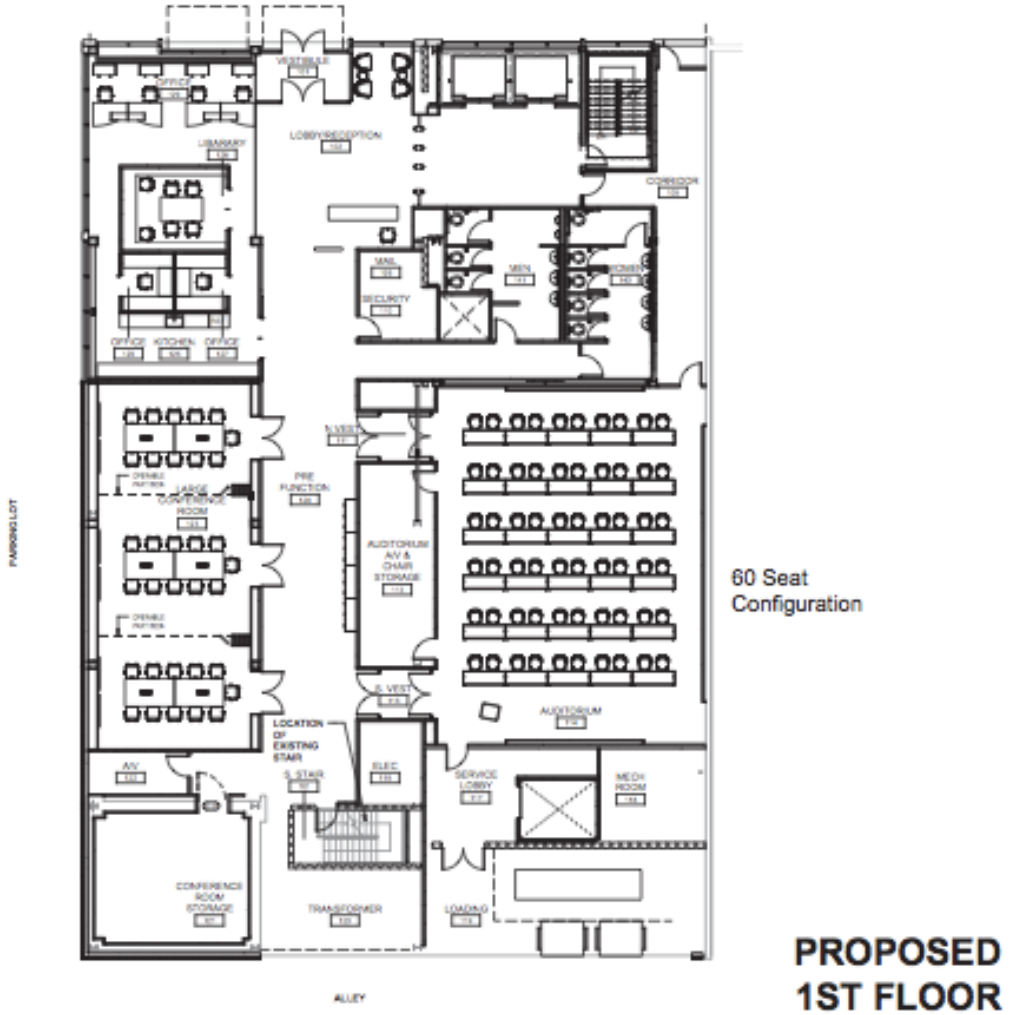
Source: Pfeffer Development

Other special features of the building include a roof top open area accessed from the second floor of the tower, standby electrical generation equipment (in the event of a loss of power), the aforementioned audio-visual equipment associated with the ability to hold legislative hearings.

As now, following the renovation, the building will be connected (basement level) to the lower level of the adjacent two-level parking structure. Plans call for renovations in the parking structure, including a likely replacement of the vehicle ramp between the upper and lower levels. The connection to the elevators in the office building fulfills ADA requirements for handicap accessibility.

On the following pages are additional floorplans, a summary description of building systems and interiors, and renderings of the completed building.

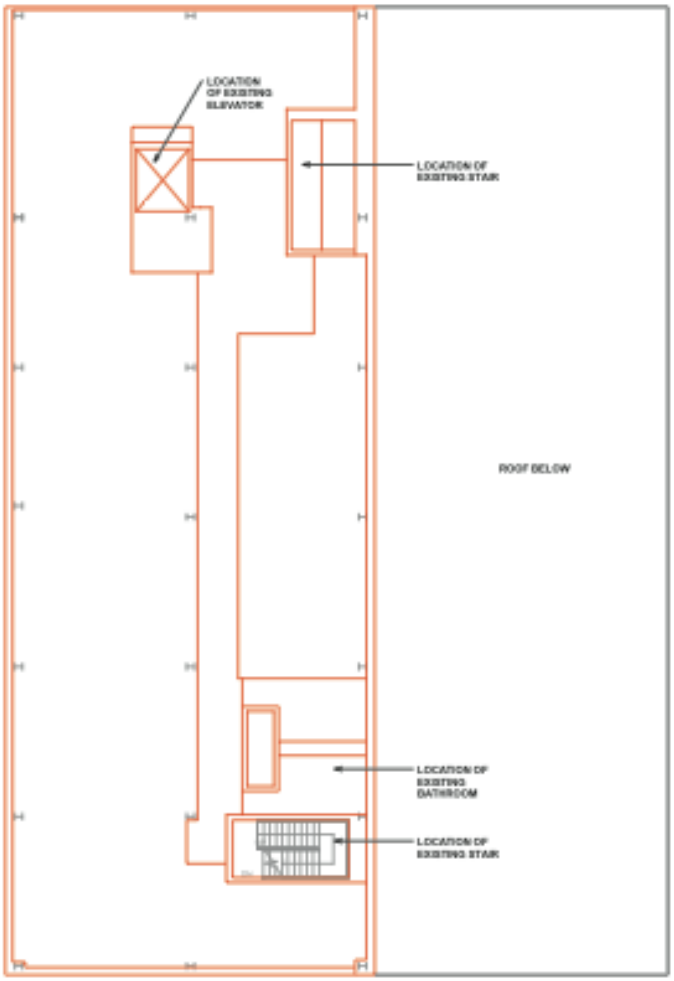
Ground Level – Renovated & Expanded Building



Source: Pfeffer Development

General Building Description	
Property Type	Special Use Office
Total Size	63,548 sf
Useable Area	55,000 sf
Construction or Quality Class	Construction Class A
Number of Stories	6
Age/Year Built	New - 2014
Condition	Assumed New
Occupancy Upon Completion	Legislative Offices
Current Use	Legislative Offices
Year Built/Effective Age	2014/0-2 years
Structural System & Exterior Description	
Type of Foundation	Concrete Footing
Structural Frame	Steel Frame
Roof Structure	Steel Frame
Exterior Wall or Skin	Curtainwall and Glass
Roof Cover	Built-up Ply
Doors/Windows	Commercial Grade, Insulated
Overhead Doors/Docks	Dock and Freight Elevator; no Overhead Doors
Lighting	Fluorescent and LED; commercial grade; specialty lighting interior and exterior
Architectural Features	14' interior ceiling, ground floor
Mechanical Systems	
Heating	Gas fired circulating air
Cooling	Fully air conditioned
Elevators	(2) Hydraulic personnel elevators; 1 hydraulic freight elevator
Fire Protection	Fully sprinklered
Security	Pass-key system on elevators and stairwells; secuity desk at enty.
Emergency Power	On-site standby generator, control system and fuel storage
Building Interior - Common Areas	
Lobby	
Floorcover	Ceramic tile, stone and carpet
Wallcover	Commercial grade paint and paper
Ceiling	Accoustical tile and painted GWB
Lighting	Fluorescent and LED; some specialty lighting
Doors/Windows	Commercial aluminum frame and steel exterior; interior solid core wood or glass.
Specialties	Accent panels, trim, lighting
Corridors	Paint or paper GWB; carpeted floors, ceramic tile in high traffic areas.

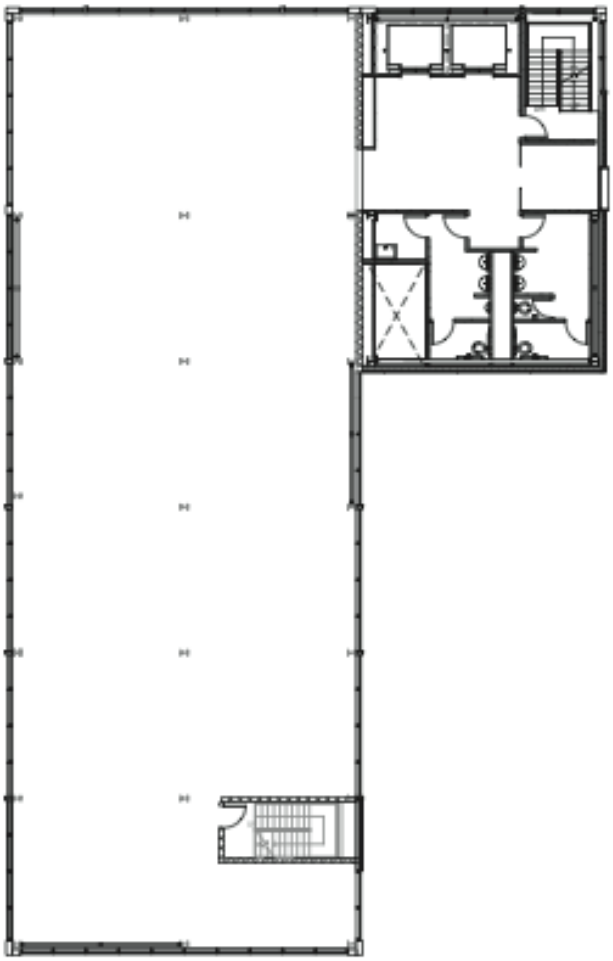
Existing Floor Plate – 2nd through 6th Floors



Source: Pfeffer Development

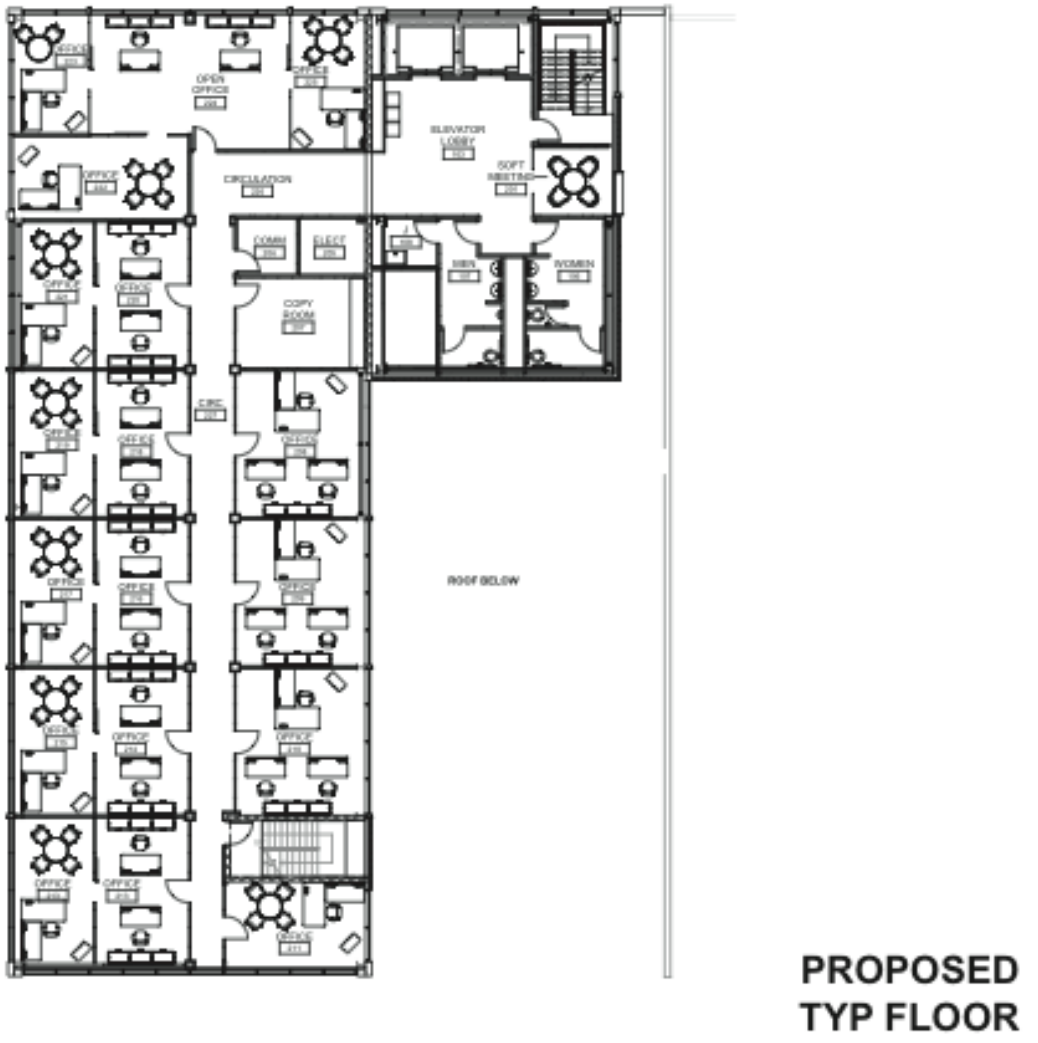
Restrooms	Men's and women's per floor; two fixture facilities per floor; shower in basement RR
Service Area	GWB walls; tile floors , GWB ceiling
Building Interior - Tenant Suites	
Floorcover	Commercial carpet
Wallcover	Paint & paper
Ceiling	Accoustical grid
Lighting	Flourscent and LED; some spot fixtures
Doors/Windows	Commercial solid core doors; interior windows/relights good quality, with privacy masking
Specialties	None reported
Specialty Areas	
Hearing Rooms	Special AV equipment; lighting;
Outdoor Patios, Etc.	Outdoor area at 2nd floor
Basement Area	Staging and storage for twice yearly office relocations
Parking	
Count	Approximately 100 spaces
Surface or Structure	Two level structure, built 1994
Utility & Circulation	Typical ; good.
Landscaping and Site Improvements	
Planting & Natural Vegetation	None
Sprinkling & Maintenance	None
Sidewalks & Other Hard Surfaced Areas	Typical commercial street front
Loading Docks, Ramps, Retaining Walls	Loading dock at alley.

Core & Shell Layout



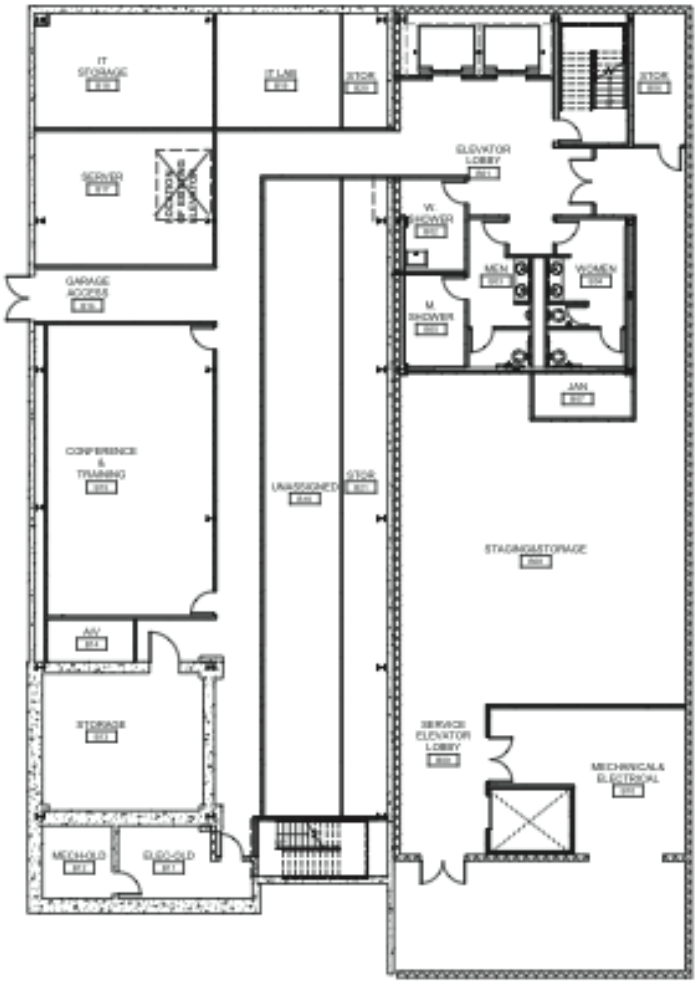
Source: Pfeffer Development

Typical Floor Layout – Expanded and Renovated Building



Source: Pfeffer Development

Basement Floor Layout – Expanded & Renovated Building



Source: Pfeffer Development

Additional Building Renderings

Source: Pfeffer Development

Upper Left – Looking southeast along 4th Avenue frontage.
Upper Right – Looking south at building entry; existing buildings at left.
Lower Left – Looking northwest at rear of building, across expanded ground floor level.
Lower Right – Interior lobby rendering.

Parking Structure

Located on the western portion of the site is a steel-reinforced two-level concrete parking structure with parking for approximately 100 cars. The upper level is located at street grade with entry on adjacent H Street, and a two-lane ramp accessing the lower level of the structure. Exit stairs are located at the northwest and northeast corner of the structure, and personnel access to the existing office building is provided mid-structure along the eastern wall. This personnel access provides effective handicap access to the lower level of the structure through the use of the elevator located in the existing office building. The same personnel access will exist in the renovated condition.

We do not have access to building plans or reliable estimates of the square footage of the parking structure; we estimate its floor plate to be approximately 19,500 sf, approximately 130' x 150', for a total area (including ramp) of 39,000 sf.

The parking structure was constructed in 1994, concurrent, we believe, with the commencement of the original LIO lease. Condition of the building is good, and consistent with its age of 19 years. Plans call for renovation and painting of the structure, including replacement of lighting. It is our understanding that the ramp will be replaced and improved.

We have not been provided with a parking space map for the structure, and we note that there is a history of dispute between the landlord and tenant concerning the appropriate size and measurement of parking spaces and the resulting number of spaces. We note that the original lease with the LAA called for the provision of 86 parking spaces, and this number was subsequently amended. In the proposed lease amendment now under negotiation, landlord has represented that 103 parking spaces will be provided. It is our understanding that the dispute over parking space count results from an interpretive difference between landlord and tenant concerning the applicability of municipal standards for parking space size and layout; tenant believes that it applies the municipal standard, and landlord assets that – since no on-site parking is required by municipal zoning for the downtown area – the size standards are not applicable. Waronzof takes no position on the merits of either argument. We note that a widely used range of average space size for parking structures is an average of from 300 sf to 350 sf per space; we use these averages routinely. With an estimated 39,500 sf, using this standard, the Subject garage would accommodate from 112 to 131 spaces using typical standards. Given that the Subject garage has what we consider to be a generous lane width on both levels, we believe that at least 100 parking spaces can be maintained.

We note that on-site structured parking for office occupancy is not common for downtown or midtown office buildings in Anchorage; most buildings rely upon open-air surface parking lots or on nearby publicly-owned parking structures. This structured parking constitutes one of the several special features of the Subject property.

Functional Utility

The Subject property, as reflected in the accompanying plans and renderings, is functionally adequate for its government service LIO use. The building includes special features that are not found in conventional multi-tenant office buildings in order to meet the programmatic needs of the user (LIO).

Market Competitiveness

The Subject Property Is a Special Purpose or Limited Market Property

We've noted in our Introduction that we have concluded that the Subject property should be regarded as a special purpose or limited market property for purposes of appraisal. As a special purpose property, a building or facility is purpose built for a single use and/or user and routinely has features, systems or performance capabilities that are atypical, specialized or not available among generic properties routinely available in the market area. As a special purpose property, its productivity and value may be tied to a single or specialized use. If put to an alternative use, special purpose properties usually suffer a significant loss in productivity and value, since their specialized nature may impair alternative uses[5].

Special purpose properties may also be referred to as "limited market" properties. Characterization of a property as "limited market" makes the important distinction that the capabilities of any particular property are also evaluated in the context of the market area, marketplace or among the group of intended users and probable buyers for such properties. This is a particularly meaningful and valuable way to characterize our Subject property – as a limited market property. Simply put, the programmatic requirements of the user, the Legislative Information Office, cannot be met by conventional multi-tenant office buildings in the Anchorage market, and more specifically, in the Anchorage CBD where government offices are concentrated and (from a public and land use policy perspective) to be located.[6] This is made apparent by the unsuccessful efforts of the LAA to procure an alternative LIO location over the past several years.

[5] For example, a bowling alley, also a special purpose property, is much less productive and valuable when put to another form of use. Modifications must be made to the property, removing specialized improvements and features, if the building is to serve another use effectively. In contrast, a non-special purpose property, such as a multi-tenant office building, can serve a wide variety of types of office uses and be fully productive and valuable.

[6] We note that market size and market capacity can influence when a property should be properly characterized (and valued) as a special purpose property. For example, in a small regional market like Anchorage, a surgery center or data center would likely be considered a special purpose or limited market property, and the appraiser would expect to find little or no comparable transaction data and likely no competitive supply of similar properties. In a larger marketplace, however, like Chicago or Los Angeles, the numbers of surgery centers or data centers may be sufficiently high that there could be relevant transactional evidence (sales prices and rents) and enough transaction volume so that market comparison would or could be a reliable indicator of rental or market value.

In their article "The Problem of Appraising Specialized Assets" authors Crawford and Cornia make some excellent observations about the valuation of special purpose or limited market properties.[7] The authors make this first important distinction – both properties and users can be specialized or special purpose:

> *"Both assets and users can be classified as specialized or nonspecialized. A specialized asset is one that can economically be used for a specific purpose. Its value in that specific use is significantly greater that its value in its best alternative use, which often is only salvage value. Further, because most of the economic value in this use is primarily a quasi-rent, this portion of the value can be captured by someone other than the owner without causing the current employment of the asset to change[8]. By contrast, nonspecialized assets are those that can be used in multiple ways with equal value."*

The recognition that properties *and* users may be specialized or special purpose is quite helpful in understanding the context for the LIO use of the Subject property, and may explain why several efforts to procure replacement space in the Anchorage market have not been successful.

> *"Specialized users are similar to specialized assets because their highest income results from their working on one specific task. For specialized users, the economic return from their next best activity can be substantially less than their employment as a specialized user. Non-specialized, or generic, users have no implications for the value of the assets. Hence, non-specialized users and specialized users of generic assets do not present an appraisal or valuation problems."*

Here Crawford and Cornia make a second important distinction as the appraiser confronts a valuation assignment with either (or both) a specialized property or a specialized user – that the appraiser must consider *both property and user in the determination of whether or a property may be considered special purpose* for analysis and valuation purposes when the appropriate and reliable methodology of value is selected (and implemented). The key idea they present is that where a generic user can productively use a generic property, the full utility and value of that property is realized (i.e. these assets "*do not present an appraisal or valuation problem*"). Further, where a specialized user can use a generic property for a generic use, again, the full utility and value of a property is realized[9]. However, where a generic user uses a specialized property, there is a *loss* in productivity and value, because the property is not properly utilized (and the worth and value of the special features and capacities of the building is diminished). Finally, in much the same way, they argue, *a specialized user cannot be effective and economically productive* (i.e. "the economic return from their activity") *in a generic property*. Crawford and Cornia would say that this specialized user does not

[7] Crawford, Robert G., Cornia, Gary C., The Problem of Appraising Specialized Assets, The Appraisal Journal, January 1994, pg 75

[8] Here, Crawford and Cornia mean that a landlord may own a special purpose property – by renting the special purpose property to the user, as opposed to that user only being able to obtain or procure that property through direct ownership.

[9] For example, a specialized user in a specialized facility that needs a generic warehouse to store materials prior to use.

realize their "highest income" from a "generic asset" – in other words, the generic asset does not allow the specialized user the effective execution of their intended duties, task or function. This can only be done in a specialized property.[10]

This is *precisely* the situation that we confront with the LIO operations in Anchorage and their historic inability to meet their operational needs with a generic office building located elsewhere in the Anchorage bowl.

Procurement History of the Anchorage LIO

Waronzof has reviewed the procurement history of the Anchorage LIO incidental to this assignment, and we have concluded that the inability to procure replacement office space that meets the programmatic needs of the LIO is strong evidence that the Subject property should be regarded and valued as a special purpose property.

According to documents provided by the LAA, efforts to lease replacement space for the Anchorage LIO were made in 2002, '03, '06, '07, '09, '11 and '13. In each instance, proposals or expressions of interest to lease office space to the LIO were received, but ultimately found to be inconsistent with the operating and procurement objectives of the LIO and LAA. Efforts to evaluate new construction of an LIO building (or purchase a building) were completed in 2008, 2009 and in 2011. Again, these efforts to build or own were not successful – either in meeting the requirements of the LAA or in producing a building occupancy alternative that was satisfactory to the Legislative Council.[11]

These Anchorage LIO requirements also exist in a commercial property market context that is, itself, somewhat atypical. Because of the severe recession experienced by the state and region in the late 1980's and early 1990's, as well as the very slow climb out of that recession, the inventory of available office buildings in and around Anchorage is limited. There was little new construction for several years, as well as low or poor rent and occupancy conditions. This led to a market condition in which both rents and sales prices fell significantly behind the break-even rents necessary to recover the cost of new construction. Consequently, a significant gap arose between "break-even rents" and "market rents", a gap, which is only now beginning to narrow. This gap continued in part because economic growth (leading to broad demand for new office buildings) was not sufficient to trigger significant new construction of

[10] In other words, the ability of the occupant or user to fulfill their specialied function or activity is impaired or injured by the inability of the building to meet their needs (i.e. the use of a generic building).

[11] It is worthwhile to note that fulfilling the requirements of the LAA and gaining the support of the Legislative Council for an LIO building alternative – in a market like Anchorage – is not an easy undertaking (for a variety of reasons). Among those reasons are facts such as: (i) the LIO function is essentially a governmental function that imposes certain requirements and obligations on the occupancy; (ii) the occupancy has certain unique or specialized requirements to effectively perform its function (e.g. accommodating legislative hearings, twice-yearly relocation of offices); (iii) the downtown Anchorage location mandate; (iv) the requirement for dedicated reserved parking for LIO office occupants; (iv) the costs of obtaining a building that meets such requirements and (v) the desire to do so through lease occupancy (versus state ownership).

office buildings (see the following Market Analysis discussion). Also a by-product of these market conditions was severely limited new office construction in downtown Anchorage; most new office buildings were located in Midtown or South Anchorage, outside of the acceptable downtown Anchorage location for the government office occupancy of the LIO.

The procurement history from 2003 forward for the Anchorage LIO certainly indicates that a building that meets the needs of the LIO has not become available within the existing inventory of generic office buildings in Anchorage. Other available properties (evidenced through the expressions of interest or responses to requests for proposal) have not met the requirements of the LAA or with the approval of the Legislative Council. Because of the several efforts that have occurred over the ten year period 2003-13, there is strong evidence that the private market for generic office buildings cannot meet the needs of the LIO and strong evidence that the LIO function is sufficiently specialized that it requires specialized features that likely cannot be met by the generic office inventory.

Programmatic Requirements of the LIO for the Property

Programmatic requirements (in the context of buildings and property) are the requirements of the user for the property or buildings they occupy. Where there is a specialized use or user, or a very long-term use of a building is anticipated, it is common to have a programmatic analysis of their use and occupancy completed, usually well in advance of planning for a new building or occupancy. The programmatic analysis ultimately determines what features and capabilities should be included in order to meet the needs and mission of the user. In contrast, where occupancy in generic buildings by a typical tenant type is planned, the tenants rarely have a need for a programmatic analysis – because their needs are generic – and these typical or generic needs are able to be met by any number of competitive properties in a given marketplace.

There has not been, to our knowledge, a thorough programmatic analysis of the needs of the LIO; the closest document or outline we could locate was a summary of desired capabilities done in conjunction with a preliminary analysis of what we understand would have been a state-owned LIO alternative at Block 102 of the Anchorage Townsite (a site near 9th and C Street (2009)). Were a programmatic analysis completed, we would have additional information by which we could compare the requirements of the occupancy with the capabilities of both generic and specialized buildings. For example, we know that the LIO needs both a standby emergency generator and accommodations for the twice-yearly relocation of offices (freight elevator and staging area in the Subject property); we also know that these are not capabilities of generic office buildings in the Anchorage marketplace. Thus the absence of a comprehensive programmatic analysis makes it a bit more difficult to

determine (a) what the specialized needs of the LIO are, and (b) what the relevant capabilities of the generic Anchorage office building are.[12]

Public Private Partnerships for Specialized Uses by Government

We believe it is helpful in this discussion of Market Competitiveness, as we describe the basis for our conclusions that the Subject property should be regarded as a special purpose property, to address the point made above by Crawford and Cornia about "rents" and the special purpose property:

> *"Further, because most of the economic value in this use is primarily a quasi-rent, this portion of the value can be captured by someone other than the owner without causing the current employment of the asset to change."*

A "quasi-rent" in this context are the costs of debt and equity that represent the capital investment in a new facility. We've noted that the authors included this comment to punctuate that "use" and "users" can be separated from "capital" without a loss of value or productivity in the property. In other words, the capital of a landlord may be used to construct and rent a special purpose property to a specialized user without a loss in value or productivity. While this idea seems a bit esoteric, it is in fact, done routinely by local, state and the federal governments – who lease not only generic buildings from the private sector – but also specialized facilities (from as simple as an office building with enhanced security features to agencies like Homeland Security of the Federal Bureau of Investigation, to highly specialized facilities like prisons, medical facilities, laboratories and infrastructure projects like sewer treatment plants). That is the essence of today's public-private partnerships (also known as "P3" projects) that are widely used and cited as a solution to the capital investment needs of all levels of government.

The essence of the lease that is under negotiation for the Anchorage LIO is that it is a form of public-private partnership. The traditional benefits of P3 should be realized here: a more rapid and lower cost procurement, delivery of a highly effective building for a specialized need, and long-term opportunities for a lower total occupancy cost than had government ownership been used. What is atypical about the proposed transaction, however, is the fact that the lease (as contemplated) has only a ten year basic term, and because it contains a provision that makes the payment of rent subject to annual appropriation. These are terms and conditions of a lease that are more typical of a lease of generic and not specialized property. Most typical P3 transactions would not contain

[12] We should note that, as appraisers, our task is *not* to evaluate what the needs of the user are, but to estimate the market value or rental value of the building(s) that will meet those needs. Programmatic analysis is the pervue of architects, space planners and other specialists.

these provisions, because the investor/landlord is forced to assume too much risk, given the returns on investment that are available.[13,14]

Public-private partnerships are commonly done for special purpose properties, and there is a well-established body of thought and practice about how they may be analyzed and evaluated, as well as implemented. At its core, for specialized properties or facilities, the parties (landlord and tenant) seek (1) the lowest reasonable cost of the property or facility and (2) the lowest reasonable cost of capital that may be applied to that initial capital investment. This "cost X rate of return" approach to determining the appropriate rent level for the private sector investment in a P3 project is common. It is, by far, the most frequently used basis for determining rent is such transactions. It is also quite common for these transactions to be subject to statutory or regulatory standards like AS 36.30.083 in order to provide accountability and assurance that such transactions are arm's length and fair. Thus, if "cost" is appropriately documented and fairly represents a competitive cost of construction to landlord and tenant, and the rate of return is also appropriate and fair, then the resulting rent may be considered fair and is commonly characterized as a "market rent" for that specialized facility.

That Cost X Rate of Return = Rent is a bit more obvious where a highly specialized property, such as a prison, sewer treatment plant or toll-road, is proposed. One cannot readily locate a market rent or sale comparable for such a specialized use (sometimes there is only one facility in a marketplace). Where we have a specialized use (LIO) that "seems like" a generic office occupancy, however, one may think that a generic office rent is a suitable benchmark when, if fact, it is not. Only when generic rents are appropriately adjusted can we begin to regard that indication of rental value as appropriate or reliable as an indication of market rent. Crawford and Cornia echo this idea in their article by saying:

> *"The income approach is slightly inconvenient if income is not directly or reparably observable for specialized and generic users. It will be the least practical of the three methods."*

[13] The total occupancy cost associated with government procurement of a building and government operation of a building set the upper limit of "rent"; a successful P3 project should deliver a total occupancy cost that is below the cost that would otherwise be incurred by government. In the same way, rent sets an upper limit on the returns available to an investor.

[14] P3 transactions more frequently have a longer lease term – often as long as 30 years, whereafter the property reverts to the government tenant or purchased by the tenant at a formula price that typically declines as the lease runs. In this way, the private sector investor is protected against the risk of receiving a specialized property back from the tenant before the investment is amortized, and having to prospectively release the specialized propert to a generic user who will not be willing to pay a rent that reflects the cost of those specialized features or capabilities.

Implications for the Valuation of the Subject Property

In this Market Competitiveness discussion, we have addressed three ideas that are important as we estimate the rental value of the Subject property:

1. That the extent to which a property is judged to be either special purpose or generic is influenced by both the special capabilities of the property and the specialized requirements of the user;

2. That the unsuccessful procurement history of the Anchorage LIO is strong and sufficient evidence that the capabilities of the property and the needs of the LIO use are, in fact, specialized (and not generic) and have not been, nor likely can be met by the inventory of generic office buildings in the Anchorage office market; and

3. The leasing of special purpose properties for government occupancy is well-established and routine (frequently referred to as public-private partnerships) and that the routine basis for an evaluation of rent or market rent for such P3 transactions is an appropriate project cost times a market rate of return

In some sense, then, we can say that the Market Competitiveness of the Subject property is not good – precisely because it is a specialized building built (or re-built) for a specialized user. In that sense, we can also speculate that the completion of the proposed project will have low or no impact on office market conditions in Anchorage – largely because (as a specialized use) the property lies outside of the peer group of generic Anchorage office buildings. That said, all indications are that the building can and will meet the needs of its specialized LIO use quite effectively. As described in the Procurement Officer's Finding,[15] the modifications to the lease (including extension of the term) incorporate changes to the building that will meet the operating requirements of the Anchorage LIO and which have the full support of the users – the Legislative Council. Given the twenty year history of the Subject property as the site for the Anchorage LIO, and the ability of the renovated and expanded property to meet current and future needs, we believe that it is highly likely that the ten year extension of the lease will be followed by a subsequent extension of the lease, or, in the alternative, acquisition of the property by the state through the purchase option alternative that is discussed later in this valuation report.

[15] Exhibit C to the Draft Lease Amendment.

Concluding Comments – Property Description

Upon completion, the Subject property is anticipated to be a well-designed and fully utilized office building for the Anchorage LIO. The features of the building are anticipated to meet the specialized needs of Anchorage-based Alaska legislators and their staffs, as well as the needs of the Legislative Council, other branches of government and the public. We've summarized past efforts to procure a replacement office location from among the existing inventory of generic office buildings in Anchorage, and, when coupled with the programmatic requirements of the LIO, we find that, for valuation purposes, the building should be regarded as "special purpose". In other words, the specialized needs of the LIO can be met by this building, and cannot be met by a generic building.

The design of the renovated and expanded building is modern and contemporary and it will be an appropriate and desirable "addition" to the Anchorage skyline. Significantly, this building, once renovated, will not be an obsolete and uncompetitive building near the end of its useful life. Reuse and expansion – which permits the addition of modern systems and amenities – is a good outcome for this property and is consistent with the highest and best use of the property.

Subject Property Lease Agreements

The following is a summary of the lease extension agreement under negotiation at the Subject property:

Summary of Lease Agreements

	Lease Extension	
Lessor	716 West 4th Avenue, LLC	
Lessee	Legislative Affairs Agency	
Initiation	6/1/14	
Term	120 months	
Premises	Approximately 64,000 gross square feet of office space and appropriate off street parking spaces.	
Rent	*Escalating Rent Structure*	*Fixed Rent Structure*
Base Rent	$247,756 per month + landlord's estimated costs of maintenance obligations ($12,687) = $260,443 per month	$267,921 per month + landlord's estimated costs of maintenance obligations ($13,719) = $281,641 per month
Percentage Rent	None	None
Lease Structure	Modified Triple Net	Modified Triple Net
Amendment	This lease extension is Amendment #3 to a lease initiated on April 6, 2004.	
Rent Adjustment	*Escalating Rent Structure*	*Fixed Rent Structure*
Base Rent Adjustment	Annual increases at 2%	Fixed rent for 10 years.
Operating Expense Pass-Throughs	None	None
Proportionate Share	Not applicable	Not applicable
Landlord Expenses	Capital replacements; certain interior surfaces and systems.	Capital replacements; certain interior surfaces and systems.
Options to Renew	One 10 year option; rate not specified. Six months notice prior to expiration.	One 10 year option; rate not specified. Six months notice prior to expiration.
Rent At Option Renewal	Not specified	Not specified
First Right of Refusal/Option to Purchase	Contemplated by parties, but not incorporated into lease extension agreement.	Contemplated by parties, but not incorporated into lease extension agreement.
Disposition of Improvements	Not Applicable	Not Applicable
Other Provisions		
Construction Workletter	Exhibit A to Lease Agreement	

Source: Draft lease extension agreement.

COMMUNITY DESCRIPTION

The following is an excerpt describing the Municipality of Anchorage taken from a recent (March 2013) Official Statement associated with a municipal bond offering by the Municipality of Anchorage:

General and Economic Information Relating to the Municipality of Anchorage

Situated on a broad plain at the head of Cook Inlet in southcentral Alaska, the Anchorage area (now known as the Anchorage Bowl) was settled in 1915 as a construction base for the Alaska Railroad, which was built by the federal government. The railroad runs from the Gulf of Alaska to Fairbanks in interior Alaska. The largest of Alaska's cities, the Municipality is a modern, progressive and dynamic metropolitan center with an estimated July 2012 population (Alaska Department of Labor) of 298,842.

The Municipality is the leading trade, supply, banking and communications center of Alaska as well as the headquarters city in Alaska for many of the national and international firms participating in the development of the petroleum, natural gas and other natural resources of the State. The Municipality is also an important seaport, a world air transportation center, the headquarters city for the Alaska Railroad and the site of two large and historically stable military bases. Fort Richardson Army Base and Elmendorf Air Force Base. Federal and State government offices and tourism are also major factors in the economic base of the Municipality.

Population

The population of the Municipality and the State is shown in the following chart:

	Population[1]	
	Municipality	State
2012 Estimate	298,842	732,298
2011 Estimate	296,197	722,190
2010 Estimate	291,826	710,231
2009 Estimate	290,588	692,314
2008 Estimate	284,994	679,720
2007 Estimate	283,823	676,987
2006 Estimate	283,244	670,958
2005 Estimate	278,294	664,060
2004 Estimate	277,810	657,314
2003 Estimate	273,024	647,773
2002 Estimate	267,810	640,522
2001 Estimate	264,840	632,091
2000 U.S. Census	260,283	626,931
1990 U.S. Census	226,338	550,043
1980 U.S. Census	174,431	401,851
1970 U.S. Census	126,385	302,361
1960 U.S. Census	82,833	226,167
1950 U.S. Census	19,432	128,643

(1) Estimates are as of February 2013 from the Alaska Department of Labor and Workforce Development, Research and Analysis Section.

Construction Activity

New building activity in the Municipality from 2000 to 2012 is reflected in the following table, which sets forth the construction value of building permits issued by the Municipality.

Municipality Construction Activity ($ in 000s)

Year	Commercial Permits	Residential Permits	Total Permits
2012	$134,040	$145,556	$279,596
2011	320,882	112,191	433,073
2010	267,240	128,131	395,371
2009	334,399	117,016	451,414
2008	360,000	121,000	481,000
2007	449,000	161,000	610,000
2006	584,000	217,000	801,000
2005	357,286	304,119	661,405
2004	350,809	298,606	649,415
2003	385,132	338,710	723,842
2002	282,182	305,671	587,853
2001	286,918	312,464	599,382
2000	290,864	207,444	498,308

Source: Municipality of Anchorage.

Employment

The following table shows estimated wage and salary employment (exclusive of self-employed, domestic and agricultural workers) for the Municipality area by industry.

Wage and Salary Employment by Industry

	2007	2008	2009	2010	2011	2012*
Goods Producing						
Mining (Oil/Gas)	2,600	3,000	2,700	2,600	2,617	2,917
Construction	9,300	9,400	8,700	8,400	8,192	8,067
Manufacturing	2,000	1,900	1,800	1,900	2,025	2,158
Total Goods Producing	13,900	14,300	13,200	12,900	12,833	13,142
Service Producing						
Transportation	11,200	11,600	11,100	10,800	11,017	11,575
Trade						
Wholesale	4,900	4,900	4,600	4,600	4,542	4,575
Retail	17,500	17,500	17,300	17,100	17,033	17,233
Total Trade	22,400	22,400	21,900	21,700	21,575	21,808
Finance, Insurance and Real Estate	9,200	9,000	8,900	8,900	8,958	8,683
Services & Miscellaneous	62,900	64,400	64,800	65,500	67,300	70,350
Government						
Federal	9,300	9,400	9,600	9,800	9,542	9,367
State	10,100	10,300	10,400	10,600	10,658	10,617
Local	10,700	10,800	11,000	11,000	10,858	10,617
Total Government	30,100	30,500	31,000	31,400	31,058	30,601
Total Service Producing	135,800	137,900	137,700	138,300	139,908	143,016
Total Goods and Service Producing	149,700	152,200	150,900	151,200	152,742	156,158

*Preliminary results
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section.

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section.

The following table shows a comparison of the annual unemployment rates for and the Municipality for the period of 2008 through 2012.

Annual Unemployment Rate

	2008	2009	2010	2011	2012*
United States	5.8%	9.3%	9.6%	8.9%	7.6%
Alaska	6.7	8.2	8.1	7.5	7.1
Anchorage	5.3	6.8	6.9	6.1	5.8

*Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section (as of February 15, 2013). *Preliminary results*

Oil and Gas Industry

According to the Department of Labor statistics, total oil and gas jobs in 2011 totaled 2,617 comprising only 1.71% of the total jobs in the Municipality. The following information is derived from sources believed to be reliable, but has not been independently verified, and its accuracy is not guaranteed by the Municipality or the Underwriter.

The Municipality has been the headquarters for Alaska's oil and gas industry since the discovery in 1957 of the State's first producing oil field in the Swanson River area of the Kenai Peninsula, which is southwest of

the Municipality. There are 28 producing oil and gas fields on the Kenai Peninsula and offshore Cook Inlet. Cook Inlet oil production peaked at 230,000 barrels per day in 1970 to about 10,000 barrels per day in 2011. For more information please see the Revenue Sources Book Alaska Department of Revenue – Tax Division Fall 2011.

A gas liquefaction plant at Nikiski, the only one of its type in North America, has supplied liquefied natural gas (LNG) to Japan each month since 1969. In the fall of 2011, ConocoPhillips acquired new contracts for natural gas supplies from Cook Inlet producers, including Buccaneer Energy Ltd. and has leased an LNG tanker to restart the plant's decade-long export business with the Asian markets. ConocoPhillips acquired full ownership of the plant when it bought Marathon Energy's 30 percent share in the facility. Exports are expected to resume in the second half of 2012. The Kenai plant was scheduled to be mothballed last spring. But energy shortages caused by the Japanese earthquake and tsunami spurred a temporary demand in Asia for extra deliveries, and the plant continued exports through November (2011), when shutdown procedures started.

The Alaska Department of Natural Resources division of oil and gas did not produce an annual financial report for 2010, 2011 and 2012. Additional information on oil and gas can be found on the Department of Natural Resources website: *http://dog.dnr.alaska.gov*.

Military Bases

Elmendorf Air Force Base and Fort Richardson Army Base, two military bases located in Anchorage, are an important part of the economy of the Municipality. In 2010, the bases were joined under a shared command and new name. JBER, the acronym for the Joint Base Elmendorf/Richardson, (pronounced "jay-bear") is the name of the combined installations. The Joint Base houses, an airborne brigade, a support brigade, and F22 Wing, a C-17 Wing, and numerous other support and tenant organizations.

Port of Anchorage

Heavy reliance is placed on marine transportation for movement of the majority of goods to, from, and throughout Alaska due to the great distances involved, the lack of road infrastructure, the isolated locations of many bush communities, and the associated need for lower shipping costs. The Port of Anchorage was opened in 1961 and has become the leading general cargo port of Alaska. Ninety percent of all goods for 80 percent of Alaska's population enters the state through the Port of Anchorage. The Port includes over 2,200 feet of general cargo terminal berthing and over 1,200 feet of bulk petroleum terminal berthing. Cargo handling facilities include three rail-mounted container cranes. The following figures of annual tonnages handled, as reported by the Port, show Port activity from 2002 through 2012.

Port of Anchorage

	Tonnage		
Year	General Cargo	Petroleum	Total
2012	1,870,887	1,877,990	3,748,877
2011	1,824,322	2,310,892	4,135,214
2010	1,846,171	2,116,791	3,962,962
2009	1,796,177	2,004,068	3,800,245
2008	1,959,545	2,410,731	4,370,276
2007	1,914,565	2,400,925	4,315,490
2006	1,878,317	2,468,971	4,347,288
2005	2,234,247	2,867,570	5,101,817
2004	1,886,809	2,741,201	4,628,010
2003	1,829,048	2,583,579	4,412,627
2002	1,705,570	2,245,098	3,950,668
2001	1,767,385	2,229,738	3,997,123

NOTE: The increase in total tonnage in 2005 reflected an unanticipated spike in Horizon shipping, resulting in an 18.4% increase in general cargo tonnage handled by the Port. Conversely, the decline in total tonnage in 2006 reflected: a) a return to historical Horizon general cargo tonnage levels; and b) a 13.9% decline in petroleum tonnage handled, reflecting Flint Hills loss of an international contract for Naphtha products which are used to make plastics.

Demand for Port services continues to grow, resulting in the Port expansion project that commenced in 2003. The expansion underway involves two phases: (i) a road and rail project and (ii) a marine terminal expansion. The first phase (road and rail project) has been completed and the first phase of the marine terminal expansion began construction in 2006. The remainder of the project is currently under a U.S. Army Corps of Engineers 404 permit of the Clean Water Act, and construction began in 2007. Construction of the Port project depends upon the receipt of monies from the federal and state governments, and Port contributions derived from revenues. While the Port has contributed $49.1 million to the project, the project has received $230 million in federal and state grants. Receipt of further grant monies cannot be assured at this time.

In order to continue to maintain market dominance and to support increased handling capacity, the expansion will allow the Port to accommodate larger ships with deeper drafts, unload containers using modern state-of-the-art cranes, support growing military deployment requirements, provide barge dry bulk and container cargo handling capability for improved service to Rural Alaska, and provide new industrial property for lease. To streamline services to city businesses, citizens, and the state, the Port expansion includes transportation links that will enhance these necessary services.

Transportation

The State operates the Anchorage International Airport (ANC) which serves as the primary passenger airport in Alaska and is an important cargo airport globally. ANC is classified by the FAA as a medium-hub airport on the basis of passenger enplanement levels. ANC is ranked 64th in the nation based on Calendar Year ("CY") 2009 passenger levels (enplanements plus deplanements) according to the Airports Council International ("ACI"). In terms of cargo activity levels, ANC ranked,

based on air cargo tonnage, as the number two cargo airport in North America in CY 2009 according to ACI – North America and as the number six cargo airport in the world by the ACI in CY 2009. ANC, including both domestic and international terminals and general aviation and air taxi base around Lake Hood, covers approximately 4,837 acres of land. ANC is located approximately three miles southwest of the principal business district of the Municipality. ANC's passenger terminal facilities include an approximately 834,000 square-foot domestic South Terminal and, connected to it by an enclosed above-ground walkway, an approximately 312,000 square-foot North Terminal used primarily for international flights. Additional facilities include a control tower owned by the FAA, privately-owned maintenance hangars, fueling facilities and catering facilities, State-owned parking facilities for over 4,100 vehicles (including a 1,172 space parking garage, 1,372 additional spaces for paid long-term and short- term parking, a new 335-space "Park, Ride & Fly" lot, and 1,258 employee parking spaces, but excluding over 1200 more spaces in the Consolidated Rental Car Facility), and land leased to the United States Post Office and the Alaska National Guard. In May of 2011, JetBlue added seasonal destination flights between Anchorage and Long Beach, California.

ANC is a strategically positioned cargo refueling and transloading hub averaging approximately 770 international and domestic all-cargo landings weekly in FY 2010. Cargo activity at ANC includes traffic between the United States and Asia. Additionally, two United States carriers – FedEx and UPS – operate international hub and spoke cargo routes from bases at ANC.

Private investment in cargo infrastructure at ANC continues to reflect market growth. Since 1996, the private sector has invested a total of approximately $280 million. UPS opened a centralized wide-body pilot training facility in 2008 capable of flight training over 400 crew members on 747-400 and MD-11 aircraft to support rapid growth of UPS' worldwide international express and heavy freight network. UPS added a ground equipment maintenance and local distribution hub facility in 2006. In 2005-2007, UPS added five wide-body parking aprons to increase aircraft parking capacity to a total of 11 aprons.

FedEx has invested in excess of $150 million in Anchorage facilities and uses ANC as its hub for clearing incoming packages from Asia through U.S. Customs and Border Protection. In 2007, FedEx completed a multi-phased expansion of its international package sorting facility, a ground service equipment maintenance facility and two aircraft parking aprons to bring its total to 12 wide-body parking aprons.

Alaska CargoPort, a third party facility developer/operator, invested approximately $22 million in cargo apron, warehouse and distribution center facilities from 1999 to 2005, which has enabled its customer carriers to take advantage of liberalized air cargo rights available to foreign air carriers operating via Alaska, increasing efficiency and market penetration by employing on-line and interline cargo transfers at the facility.

Alaska Airlines and Northern Air Cargo have also completed in excess of $20 million in cargo facility improvements since 1996. Polar Air Cargo increased its activity at ANC in 2008 as a result of winning new traffic rights to China. In 2008, Polar Air Cargo established DHL's trans-Pacific express business hub at ANC.

Additional private investment continues at ANC to meet proposed growth of ConocoPhillips/BP aviation support to Alaska's North Slope fields and corporate aviation and general aviation.

Enplanements over the long-term have grown from 2.197 million in FY 2000 to 2.347 million in FY 2010, reaching a peak of 2,562 million in FY 2008. While total commercial landings decreased from 94 thousand in FY 2000 to 89 thousand in FY 2010, total certificated maximum gross takeoff weight, the basis upon which landing fees are charges, increased (in thousands of pounds) from 20.3 million in FY 2000 to 23.8 million in FY 2010 (an increase of approximately 17.5 percent) due to the greater portion of heavy aircraft utilized by the airlines.

The Seaplane Base is located to the northeast of, and adjacent to the jet airport facilities of ANC. With approximately 1,000 based aircraft and approximately 81,000 landings in FY 2010, the Seaplane Base is one of the most active seaplane facilities in the world. The facility operates on a year-round basis, but weather conditions in the winter months dictate that the Seaplane Base operate as a ski-plane facility for part of the year.

More than 2,200 private aircraft are based in the Anchorage area and are served by 11 airfields and two floatplane bases. Merrill Field, operated by the Municipality, is the largest general aviation airport for private aircraft in the State. Its paved runways of 4,000 feet and 2,750 feet handled 144,892 take-offs and landings during 2010.

The Alaska Railroad Corporation, which maintains its headquarters and principal repair shops, warehouses and yards in Anchorage, provides freight and passenger service spanning more than 685 track miles and connecting over 70% of Alaska's population. The ARRC serves the cities of Anchorage and Fairbanks, the ports of Whittier, Seward, and Anchorage as well as Denali National Park and military installations. Vessel and rail barge connections are provided from Seattle, Washington and Prince Rupert, British Columbia. The Alaska Railroad was owned and operated by the federal government from 1924 to January 1985, when ownership was transferred to the State.

The ARRC's total revenues decreased 8% and totaled $169.4 million in 2009. The ARRC's total revenues increased 7% and totaled $180.4 million in 2008. Approximately 51% and 54% of the ARRC's revenue comes from freight revenue during 2009 and 2008, respectively, and 13% and 14% of the revenue comes from passenger services during 2009 and 2008, respectively. The majority of the remaining income is related to real estate activities and federal grant revenue. Generally, federal grant revenue is recognized as the capital assets funded by the grants are depreciated. In 2009, the ARRC had $155.5 million in expenses. The railroad employs approximately 715 year round employees.

Community Services

The following banks, three of which are headquartered in Anchorage, serve the Municipality: Alaska First Community Bank and Trust, N.A., First National Bank Alaska, N.A., KeyBank of Alaska, N.A. (an interstate branch), Northrim Bank, and Wells Fargo Bank Alaska, N.A. In addition, one state and seven federal credit unions serve the Municipality.

Media

One daily newspaper, *The Anchorage Daily News,* seven AM and ten FM radio stations, six television stations and one cable television company serve the Municipality. One local exchange carrier and several other companies provide long-distance, local and wireless telecommunication services and internet services in the Anchorage area.

Climate

For its northern location (61° latitude) the Municipality enjoys a relatively moderate climate. The average temperature for January and July are 13°F and 58°F, respectively. Average annual precipitation is approximately 16 inches.

MARKET ANALYSIS

Real Estate Market Conditions

On the following ten pages are a Spring 2013 summary of Anchorage office market conditions, incorporated with permission of the author. The summary was prepared by Reliant, Inc., an Anchorage-based real estate consulting and valuation firm. Reliant has conducted the Anchorage office market conditions survey annually for a number of years, and is considered to be a reliable report of current conditions.

Market Analysis

Market Watch – The Anchorage Office Market Survey

Introduction

Reliant, LLC produces *Market Watch*, an annual report that details the fundamentals, trends, and inventory of 8.2 million sq ft of Anchorage's Class A and B office space. This annual report is well regarded by market participants as the authoritative analysis of the Anchorage office market. Please contact Reliant, LLC for details on obtaining a copy of the most recent *Market Watch* report.

The Anchorage Office Market Analysis for this report is based primarily on the *Market Watch* report, which is compiled from a variety of sources, including an extensive survey of landlords, tenants, investors, users, property managers, real estate agents, appraisers, city assessors, and other market participants. Other sources of data include property tax records, local/national media coverage, and the Alaska Multiple Listing Service (MLS). The available data has been carefully analyzed on a qualitative and quantitative basis, as appropriate.

Historic Overview

The majority of office product within the Anchorage market was constructed in the first half of the 1980's, during the significant expansion by the oil industry and state government. In 1986, a reduction in oil prices, unfavorable changes in the tax laws, and substantial cuts in state spending, triggered a recession that resulted in a substantial decrease in demand for office product. As a result, rents and prices dropped to half of their previous levels, and vacancy rates approached 20%.

Between 1987 and 1991, there was virtually no new commercial construction, and the vacancy rate at the beginning of the 1990's was near 10%. During this decade, Anchorage experienced a gradual but consistent economic expansion, and market conditions for office space were stable. The market's existing inventory was sufficient to meet any new demand and turnover in the market, and there was little change in rental rates. Values continued to be well below replacement cost resulting in minimal amounts of new construction. The little construction that did occur was by users whose needs could not be met by the existing inventory.

From 1998 through 2004, vacancy rates were consistently between 2.5% and 5%, which resulted in a period of gradual rent and value increases. In 2002, Anchorage experienced the first speculative office construction in over fifteen years. Beginning in 2004, low interest rates, low vacancies, and other factors resulted in a surge of owner user construction resulting in softening market conditions. By mid 2005, vacancy rates had climbed to approximately 10%. Due to positive economic growth, the market absorbed a significant amount of this space, and vacancy rates declined to roughly 3% in 2008, making Anchorage one of the tightest office markets in the entire country.

Supply Analysis

Current Inventory & Classification

A review of tax records indicates that the Anchorage office market is comprised of over 10 million square feet of Class A and B product.

Note, that this includes leased, owner-user, and government occupied space, but does not include most institutionally-occupied space. Roughly 50% of the inventory is Class A, and 50% is Class B.

Office Market Construction

The office market has expanded at a rate consistent with growth in the overall Anchorage economy. Average annual expansion has been around 140,000 sq ft annually. CIRI native corporation recently completed a 40,000 sq ft Class A office building located in South Anchorage, that is leased on a long term basis to Doyon, Inc. This was the only Class A delivery in 2011, and was a 100% pre-leased, build-to-suit project. In 2012, nearly 215,000 sq ft of product was added to the market. However, of this total amount, only 75,000 sq ft had a direct impact on supply and demand conditions as the remainder of the space is owner user drive and will be owner user occupied.

Factors Driving New Construction

The annual rate of expansion since 2000 has been approximately 200,000 sq ft per year. Historically, demand for the majority of these projects came from users whose needs could not be met by the existing inventory, and no speculative projects were built in Anchorage between 2002 and 2007. To varying degrees, in response to tight market conditions, recent construction (including JL Tower, 188 WNL, and Centerpoint West), all had at least some speculative characteristics.

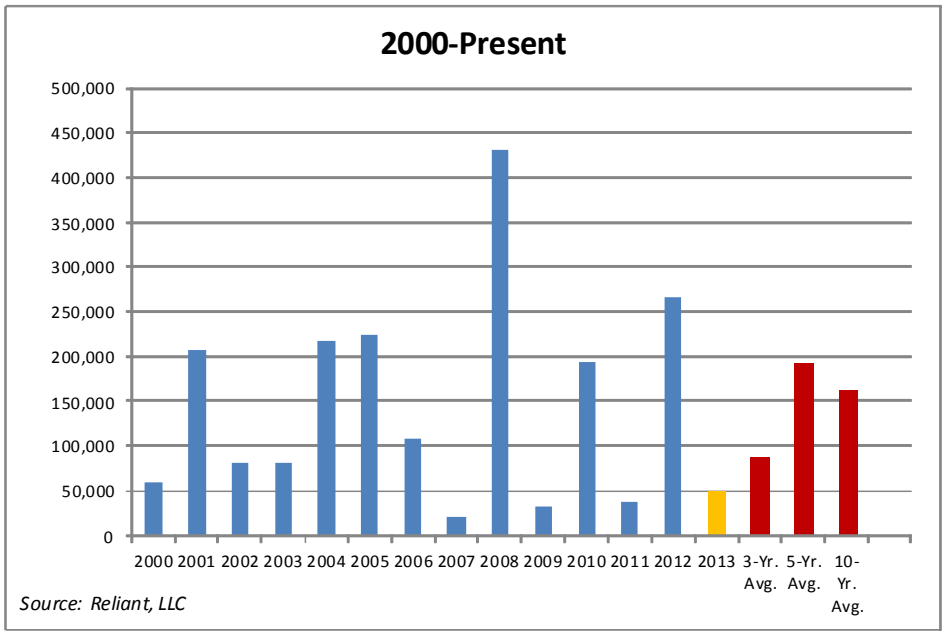
There are a number of factors driving demand for new construction. Market rents do not generally justify the high costs of new construction for smaller tenants, but may be supported for larger (30,000 sq ft plus) tenants, where there has been limited amounts of existing substitute property to choose from. In recent years, many of these large tenants have been forced to pay a premium in rent, and new construction has become a viable option. In addition, the rental spread between existing product and new construction continues to narrow. There has also been a recent trend towards sustainable construction, including the recent development of the LEED (Leadership in Energy and Environmental Design) certification program by the U.S. Green Building Council. This program grants credits that are used in the rating system, which classifies buildings at different levels of LEED certification, based on the sustainable features of a building. This has also become an important element for consideration of government tenants, which are likely to have LEED certification as a requirement included in future office space RFP's. Therefore, gaining LEED certification will likely be a competitive advantage for new construction in the future. In certain cases, these factors combined have resulted in lower occupancy costs for building than for continuing to lease. The market's perception of what constitutes "Class A" space is also gradually changing. Native corporations have had significant economic success in recent years, and in an effort to attain a higher level of corporate identity, have been one of the largest sources of demand for new construction. With additional stimulus monies, coupled with new security, and other requirements, State and Federal agencies have also been seeking to upgrade into newer construction.

However, the tightening of credit markets, higher vacancy within the new construction market, and softer employment outlook, will continue to make speculative construction less feasible in the short term. Consequently, new construction is anticipated to be driven primarily by owner-user construction or else by strong pre-leasing within a partially-speculative project. The market consensus is that the trend in owner-user new construction should subside somewhat over the next several years, due to a softer economy, tighter financial requirements by lenders, high vacancy within recently built new construction, and

increased availabilities of existing product. Speculative projects have clearly tapered off as well, as they typically require at least 30 to 50% pre-leasing before moving forward.

Proposed Construction

Indications are that 2013 will be a year of below average new construction. At this time, no site work ongoing and no cranes up. In addition, market participants report no new construction. There are no project's moving forward at this time, although there are one or two highly speculative and confidential projects, whose final plans have not been determined. At this time it appears that there will be no Class A deliveries in 2013, which will be the first year this has occurred since 1999. For analysis purposes 50,000 sq ft is shown, which represents the total construction for both Class A and Class B product. For reference, historic and projected deliveries are summarized on the following exhibit.



Demand Analysis

Historic Absorption

Since 1980, Anchorage has averaged roughly 175,000 sq ft of total absorption on an annual basis. Since 2000, absorption has been between 200,000 sq ft and 250,000 sq ft annually. This significant amount of absorption resulted in declining vacancy rates, despite the significant new product coming online. For reference, 2009 saw roughly 50,000 sq ft in negative absorption of Class A space, and 2010 was essentially flat. However, 2011 showed a return to positive absorption with roughly 100,000 sq ft. Absorption in 2012 was near 200,000 sq ft.

Employment Forecast

Change in office employment is the primary variable impacting demand for office space. The full impact to the marketplace from changes in employment often takes six to twelve months, and is a leading indicator of office market conditions. Since 1990, employment has grown at an average annual rate of 1.5%. Alaska Labor projects positive 1.2% employment change in 2013, or roughly 1,800 new jobs. A review of the projection by industry indicates that much of these will be office jobs.

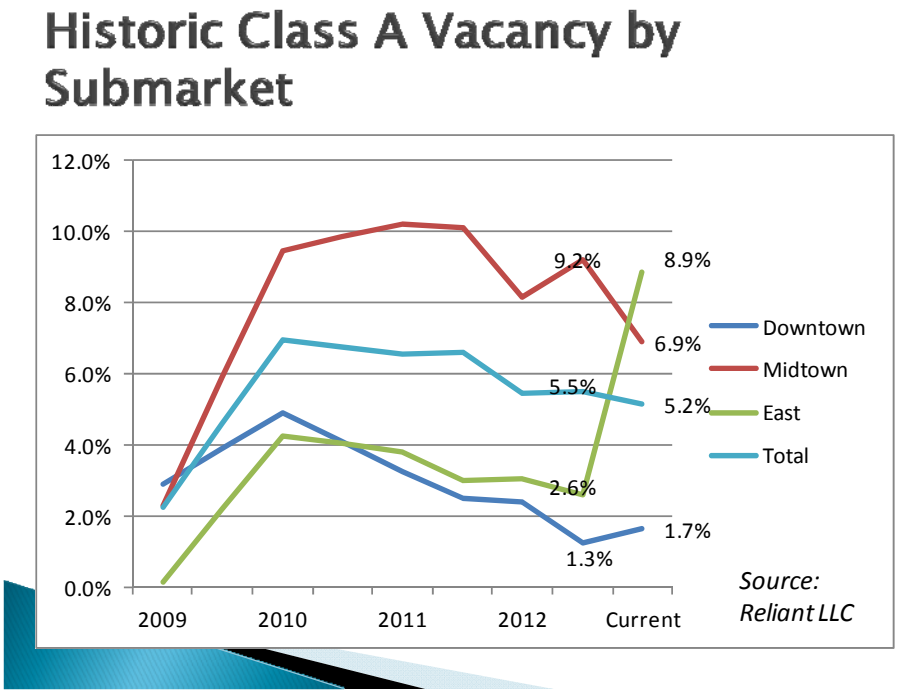
Implied Change in Office Demand

The basis for predicting changes in demand is employment trends. The conversion of employment to office demand is based on a number of factors. According to the 2000 U.S. Census, office employment is 65.3% of total employment within Anchorage. It is estimated that roughly 55% of office employment will be house in Class A space locally. To forecast the future amount of office space per employee, several architects specializing in office space planning were interviewed. Most agreed that office space per employee generally ranged between 200 sq ft and 250 sq ft. In consideration of this information, as well as the historic amount of office space required per employee, demand based on 250 sq ft per employee is forecast. The employment growth could be more or less than forecast. To reflect this, under the Conservative Outlook and Favorable Outlook scenarios, a variance of 0.5% per year forecasted is used. Based on this model, Class A office demand is anticipated to be 80,000 to 120,000 sq ft.

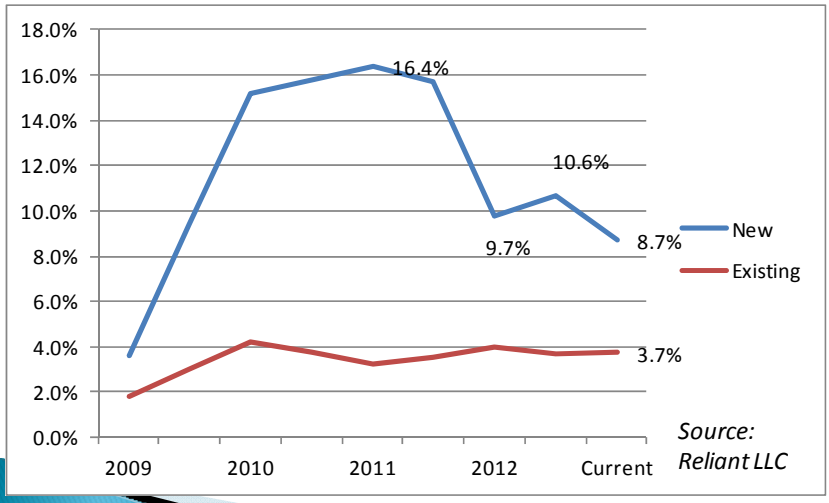
Market Profile

Vacancy Trends

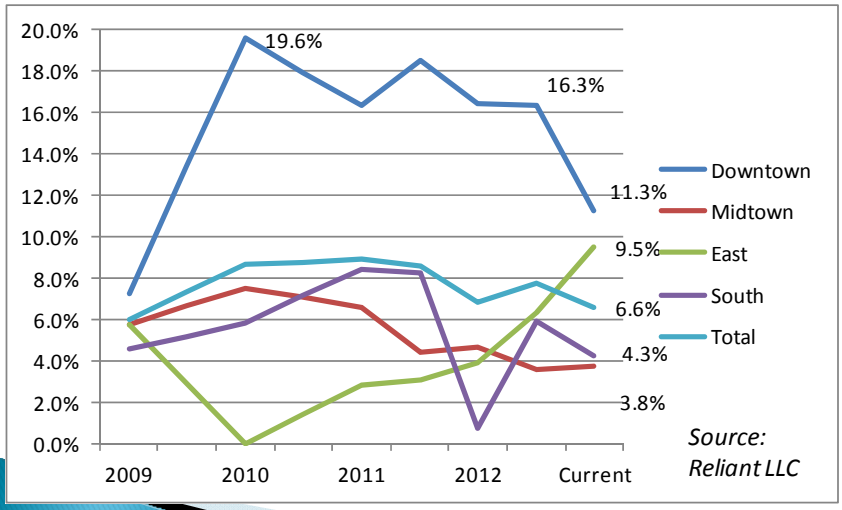
Vacancy trends are summarized on the following tables.



Historic Class A Vacancy by Year Built

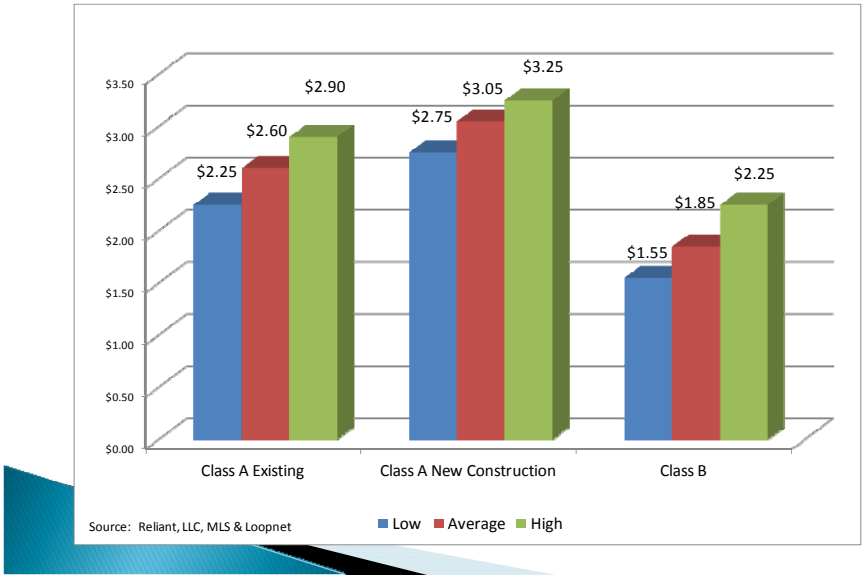


Historic Class B Vacancy by Submarket



Rental Rates Current rents are summarized on the following table.

Typical Asking Face Rents



Expense Structure

Expense structures vary widely within this market from one property to another and are negotiable. For consistency, the previous rents were quoted on a full service basis. For most properties, triple net lease rates are roughly $0.60-$0.85/sq ft lower than full service rates.

MULTI-TENANT

For multi-tenant properties, tenant expenses are generally full service with the tenants often responsible for increases in real estate taxes, and on occasion, all operating expenses.

SINGLE TENANT / NEW CONSTRUCTION

The expense structures vary for these properties and are either triple net (with the tenant paying for all expenses except for reserves) or full service (with the tenant usually responsible for increases in operating expenses, either directly or as larger annual rent escalations).

Concessions

TENANT IMPROVEMENTS

Most first-generation, Class A spaces on the market today, offer up to $35/sq ft as an inclusion in the asking rent. This allowance is usually just enough to build-out first generation space from a vanilla shell, to a drywall shell and dropped ceiling condition. For existing space, landlord-paid tenant improvements range widely from as little as $5/sq ft to as much as $40/sq ft (in the case of a complete interior tear down), but generally average $12.50/sq ft. A general rule is $2.50/sq ft of tenant improvements per year, for the term of the lease. Renewals have tenant improvements from $0/sq ft up to $6/sq ft, and average around $4/sq ft. Landlord paid tenant improvements above these amounts are typically amortized as additional rent, or represent a “concession”.

PARKING

For Downtown properties, where parking is generally scarce, an allocation of 1 parking stall per 1,000 sq ft of leased area is sometimes included in the rent. Parking in excess of this amount is generally paid for by the tenant, or reflected in the negotiated rental rate. Most users require 3 parking stalls per 1,000 sq ft,

indicating that tenants typically pay a significant portion of their own parking in this district. Midtown and South Anchorage rents are typically inclusive of parking.

FREE RENT

For existing product, free rent is generally not provided to tenants, except under special circumstances, such as in first-generation new construction, with the goal of attracting strong initial tenants. There have been several recent examples of free rent provided to tenants within the new construction segment. In addition, a few landlords with larger amounts of Class B space (such as Downtown), have begun to offer limited free rent in order to attract new tenants.

Commission Structure

LEASING

For new leases, commissions are typically 5% of the total gross lease amount, which is the lease rate multiplied by the lease term. Renewal lease commissions are typically 2.5% of the total gross lease amount. For very large transactions, the commissions are reduced. The commission is typically paid by the landlord.

SALE

For smaller properties, sale commissions range from 5% up to 6%, with half going to the listing agent, and half to the selling agent. For very large transactions, the commissions are reduced. The commission is typically paid by the seller.

Operating Expenses

Expenses have increased in recent years, particularly utilities and property taxes. At this time, they typically range from $6/sq ft up to $12.50/sq ft, or 30% up to 50% of effective gross income. Class B product tends to fall towards the lower end of the range, while Class A product tends to fall at the upper end of the range. While newer properties tend to have substantially lower operating costs, this has been offset by their higher real estate taxes.

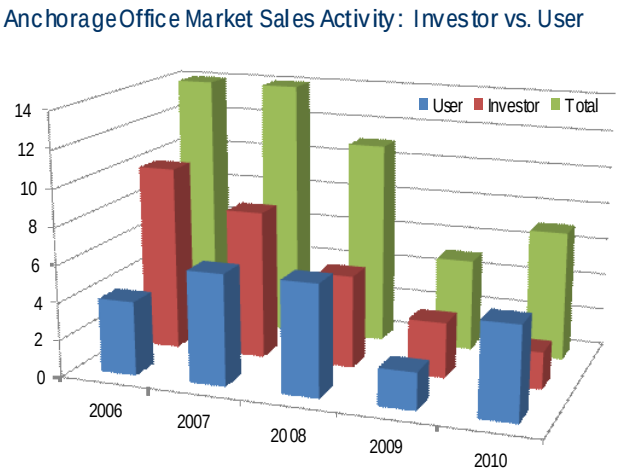
Construction Costs

Excluding land, construction costs for Class A properties range from $180/sq for lower quality buildings, up to $350/sq ft or more for higher quality buildings, with most having costs between $250/sq ft and $300/sq ft.

Investment Climate

Investors generally consider the Anchorage office market attractive. Factors influencing this investor perception are relatively higher returns, high replacement costs, limited supply of vacant land, stable employment, and potential for accelerated economic growth from a natural gas pipeline.

Typical Buyers & Sale Transactions



While investment activity is ongoing, in a reversal from five years ago, the most active buyers are now owner-users. Between 2006 and 2008, Anchorage averaged 14 Class A & B sales per year. In 2009 this decreased to 5 sales. 2010 sales activity showed a modest increase to 7 sales with one Class A sale. A Class A sale has occurred in 2011, indicating only two Class A sales since 2009. The reduced sales volume is indicative of a continued spread between the perspectives of buyers and sellers. Sellers continue to remain in a strong position with little motivation to exit from the solid fundamentals of the Anchorage market. While much of the uncertainty surrounding the national recession and future expectations has been alleviated, many buyers remain "on the fence" at this time. There is a minimal institutional presence in the Anchorage office market, with the exception of first-tier properties, where institutional investor ownership is fairly common. Typical owner-users are either local or regional companies, although there is a strong presence of national and international oil companies.

Prices

Prices are generally determined by the net operating income a property can produce, and its risk profile, particularly in the case of properties purchased by investors. Sale prices (including land) range from $70/sq ft for low quality properties up to $300/sq ft or more for first-tier properties (higher quality). There have been no sales of newer, Class A office properties or high-rise towers. However, based on typical NOI levels, superior tenant bases, and current institutional return requirements, any potential sales of such properties would clearly be expected to achieve prices well above the $250/sq ft range indicated above for older Class A properties. For reference, Class B prices tend to range from $130/sq ft up to $200/sq ft.

Overall Annual Rates (OAR's)

Overall Annual Rates (OAR's) vary widely, as they are heavily dependent on a given property's income generation and risk profile. In the Anchorage office market, OAR's are typically between 7.0% and 9.0%. Institutional-grade properties have been known to fall below this range in a few cases, while distressed/high risk properties have been known to fall above this range.

Over the past decade, the Anchorage office market has shown a tendency towards declining OAR's. These declines were primarily due to favorable interest rates and favorable changes in investor risk perceptions. While recessionary concerns have been driving sale prices down (and OAR's up) throughout much of the lower 48, Alaska is considered to be fairly insulated from these concerns at this time (please refer to the Regional Area Data section of this report).

To date, data on how Anchorage office market OAR's have responded to turmoil in national markets is mixed. Economic uncertainties outside of Alaska have

made traditional Anchorage investors more cautious, and less aggressive with property bids. Meanwhile, asking prices tend to disregard these potential risks, and are reflective of the strengths of the local office market. These market tendencies have frustrated some potential sales, as the bid-ask gap is often too substantial for both parties to reach an agreement. Furthermore, interest rates have slightly increased, the availability of capital has decreased, and loan terms have tightened, placing further pressure on buyers. Consequently, in large part, the Anchorage office market appears to be taking a “wait and see” approach to transactions.

Due to limited sales, trends in OAR's have been a controversial topic in recent years. The market has now provided sufficient sales activity to indicate general trends and a review of the data indicates surprising stability in rates during the 2009 recession, with only a 50 to 75 basis point increase. What is even more interesting, is that with the recovery of the capital markets, nearly all of this increase was erased in 2010, and current rates appear to be only slightly higher than they were in 2008.

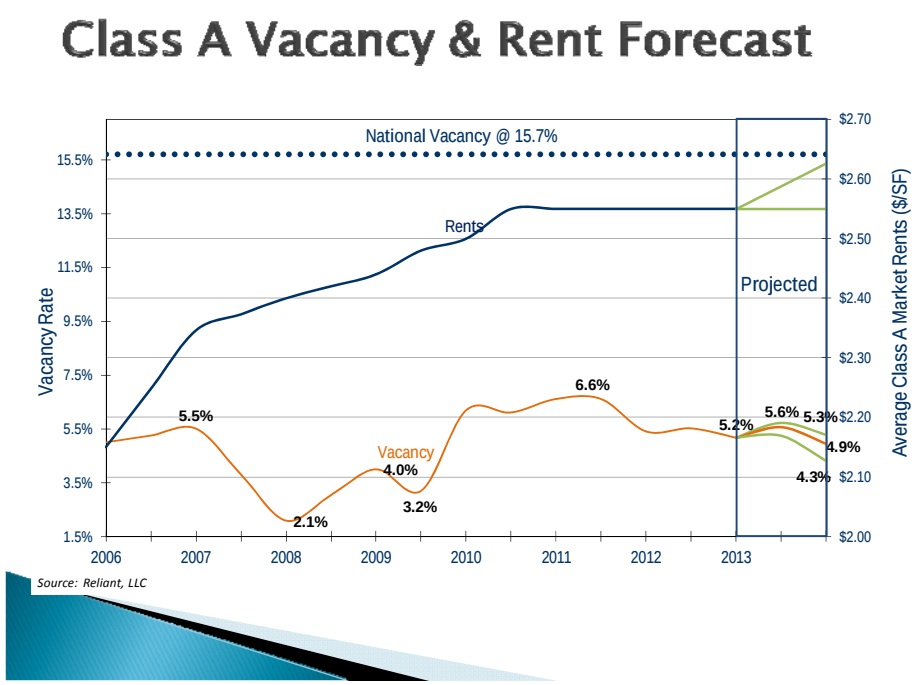
Class A High Rise Market

There are a limited number of class A high rise buildings within the Anchorage market. These can be divided into two categories, existing/new, and investor/owner user owned. Both the BP building and Atwood Building are owner user occupied. The ConocoPhillips building is 100% leased on a long term basis and is more economically equivalent to owner user occupancy. The remaining properties are investor owned and include the Frontier building, Denali Towers North, 188 WNL and JL Towers. Existing high-rise vacancy is estimated at less than 2% and possibly below 1%. New construction high-rise vacancy is presently around 8% but is falling and the June MarketWatch survey (not completed or released) is anticipated to show reasonably strong absorption in this segment. Well-positioned existing product has attained market rents only slightly below that of new construction. The Frontier Building, for example, has average rents of $2.85/sq ft, whereas new construction has recently had average rents near $3.05/sq ft. The indicated spread is significantly less than what would normally be anticipated and reflects the tight conditions in the existing market and competitive conditions in the new construction market. Overall, the existing high-rise market is tighter than the overall office market and is healthy and stable.

Market Outlook

Vacancy & Rent Trends

Vacancy and rental trends are summarized on the following exhibit.



Conclusion

The Anchorage office market has remained healthy for the past several decades, and this trend is anticipated to continue. Given the forecast of moderate employment growth for 2013, which will be met with limited new product, the forecast is for downward pressure on vacancy rates and modest increases in rental rates. Overall, market conditions are best described as healthy and tightening.

HIGHEST AND BEST USE

Highest and Best Use is defined as "the reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity."

Highest and best use is fundamental to the conclusion of market value. In theory, a seller will only sell a property if he or she can obtain the highest possible price for a property; a buyer can pay no more for a property than is permitted by the highest and best use, because the highest and best use represents the use that produces the greatest amount of income to the site (and thereby supports the highest value).

Highest and best use is an economic concept and is a judgment based upon evaluating what use provides the highest return to the *land*, after a suitable return to the building improvements is deducted. Accordingly, highest and best use is not the "biggest" use, or the most "intense" use, it is the most "profitable" use – measured in terms of profits on returns available to the land, after a return to any building improvements are deducted. Consequently, a smaller building may be a "higher and better" use of a site than a bigger building – because it requires a smaller share of net rent as a return to the building, and delivers a higher share of net rent to the land.

As noted above, in order to be considered a highest and best use, a possible use of land must be 1) physically possible, 2) legally permitted, 3) financially feasible and 4) maximally profitable (i.e. the single most profitable use). All of these conditions must be present simultaneously. Today, recognizing that more than one land use may meet all of these tests, appraisers use the term "most probable use".

Highest and Best Use, As Vacant

Physically Possible: The Subject property is physically suitable for a variety of office, commercial and retail uses. Hotel use is also possible and would be consistent with nearby development.

Legally Permissible: The Subject property is zoned for a wide variety of commercial and retail uses as part of the Anchorage CBD.

Financially Feasible: Financially feasible uses are believed to be limited at this time, due to the aforementioned gap between break-even rent levels and the costs of new construction. Single story or low-rise retail uses may be financially feasible at this time, particularly those with a visitor-oriented retail use. Because of the proximity of the site to existing state and local government offices, and due to the size of the assembled

site, government offices are among the financially feasible uses – based upon owner-occupancy or the construction of a specialized or limited market use (e.g. judicial or public safety) that would require a specialized building. Holding for an improvement in local market conditions may be the financially feasible uses of the site, if vacant. While evaluating the financial feasibility of a hospitality-related use is beyond the scope of this assignment, it may be a financially feasible use, particularly for a limited service hotel format.

Maximally Productive (Profitable):

For the Subject property, as assembled and as if vacant, the most likely and profitable uses for the site are believed to be government office or facility use, a hospitality use or holding for market improvement and speculative increase in value.

Highest and Best Use, As Improved (As Proposed)

The highest and best use of the Subject property as proposed for expansion and renovation is the proposed project. Retention of the tenant for continued occupancy is central to this conclusion, because it avoids the costs of lost occupancy and the risks associated with proceeding with a expansion and renovation plan on a speculative (with tenant) basis. Local market conditions for speculative, generic office occupancy in the downtown Anchorage sub-market are not strong or compelling, so an expansion project that meets the needs of the existing primary tenant is believed to be financially superior to any plan that might result in a larger building (through a larger improvement on the site of the former Anchor Bar); this "larger expansion" alternative is burdened by the aforementioned rent-cost gap and the lack of any economies of scale that might be achieved with an even larger project.

As conceived, the proposed 64,048 sf building appears to be the most financially productive of the available options for the improved building, recognizing that the project retains the benefit of the reuse of the structural frame of the existing building, continues the use of the parking structure, and retains occupancy to the greatest possible extent. The project is physically possible, legally permissible, financially feasible and, we conclude, the most profitable use of the existing property as improved and as proposed for expansion.

RENTAL VALUE ANALYSIS

Valuation Methodology

For generic commercial properties such as office buildings, industrial buildings and retail buildings, the most common method for estimating rental value is to perform a *direct comparison of the Subject property with other similar (generic) properties* that have recently leased or rented. The appraiser takes into account the differences between the Subject property and the comparable properties, both in terms of physical differences and capabilities, as well as the legal differences that arise from differences in the terms of the lease agreement, such as length of term, character of the lease (e.g. full service or triple net), the frequency and amount of any rent increases, etc. These comparisons are reconciled to a range and/or point estimate of rental value.

For special purpose properties, however, there are few similar or reliable comparable leases or rents in the local market area, so an alternative method of estimating rent is used, that described earlier, in which the *cost of the special purpose property is multiplied by a market rate of return to indicate a market rent*. The analyst also must take into account the terms and conditions of the lease agreement, and this is typically taken into account through the determination of the market rate of return. Further, care should be taken to recognize the implications for rental value of the ultimate disposition of the property under the lease (as we've said previously, sometimes special purpose properties actually revert to the tenant at the end of the lease, or the tenant has obligations to remove the building and site improvements). Reliable estimation of market rent via project cost and market rate of return depends upon the appraiser's awareness and evaluation of both cash on cash returns and total return to the landlord, and the ability to compare the indicated returns with other real estate investment return benchmarks. Similarly, the project cost needs also to be reviewed, in order to support the anticipated costs as being reasonable and appropriate. As we stated earlier in this report, where project costs are justifiable and appropriate for the specialized use, and the rate of returns indicated by the landlord investment are fair and within market ranges, the resulting rent may be characterized as fair and appropriate – i.e. "market rent" for the special purpose property.[16]

In this rental value appraisal assignment, because our Subject property should be evaluated as a special purpose or limited market property, we first present and complete our analysis of market rent based upon anticipated project cost and a market return on investment. This is our primary approach to rental value, and, we believe, the more reliable

[16] There is a third means of estimating market rent for a special purpose property that is based upon the relationship of rental costs (total occupancy costs) and revenues from the occupying business activity. This can be reliable in specialized industries where there are widely-known and applied ratios of occupancy cost to business revenue. Fast food restaurants are a good example; it is common to see total occupancy costs (rent, property taxes, property insurance, utilities, etc.) run from 12% to 16% of restaurant revenues. This method is not effective, however, for uses where there is not a direct relationship between revenues and occupancy costs, such as in government buildings, educational facilities and laboratories, where there is not a consistent way to determine revenue associated with the occupancy (like there is for a fast food restaurant).

basis upon which to estimate market rent for the LIO use of the Subject property. We follow that analysis with a direct comparison analysis, in which we compare the indications of rent for generic office buildings with adjustments intended to simulate the impact of the special features and requirements of the LIO occupancy. This direct comparison method is less reliable (because of the difference between the generic office inventory and the specific features and conditions of the property and occupancy) but we anticipate that it will provide some additional evidence of rental value that we will want to consider as we reconcile to our final estimate of rental value.

Our Rental Value analysis also takes two additional elements of the negotiation into consideration: (1) the presentation of the market rent on a level rent basis (as well as on an escalating basis), and (2) the addition of costs associated with a specific set of obligations of the landlord for building services, which we refer to as "service obligations" of the landlord.

Market Rent Based Upon Project Anticipated Cost & Market Rate of Return

Our estimate of market rent via Cost and Market Rate of Return begins with a discussion of the anticipated costs of the project and follows with a discussion of rate of return, concluding to an estimate of market rent as of June 1, 2014.

Project Costs

The following are the project costs reported by developer Pfeffer Development:

Development Budget	Cost	%%	Per Gross SF of Bldg Area
Existing Property & Property Acquisition	$7,890,000	17.7%	$123.19
Soft Costs	$515,000	1.2%	$8.04
Construction & A/E Services	$30,247,527	67.9%	$472.26
Interim Office Space	$1,000,000	2.2%	$15.61
Continency	$762,322	1.7%	$11.90
Construction Loan Interest	$1,110,007	2.5%	$17.33
Loan Fee	$611,077	1.4%	$9.54
Construction Management	$892,533	2.0%	$13.94
Development Fee	$1,487,555	3.3%	$23.23
	$44,516,021	100.0%	$695.04

Source: Pfeffer Development

We have reviewed the underlying general construction budget prepared by general contractor Criterion General, Inc., and their budget proposal dated August 27, 2013. This budget reports the following expense categories for general construction of the proposed building:

Criterion General, Inc. Construction Cost Budget Estimate	Cost	% %	Per Gross SF of Bldg Area
General Requirements	$3,766,738	12.5%	$58.81
Sitework	$3,877,285	12.8%	$60.54
Concrete	$1,380,210	4.6%	$21.55
Masonry	$0	0.0%	$0.00
Metals	$2,211,554	7.3%	$34.53
Wood & Plastic	$351,181	1.2%	$5.48
Thermal & Moisture	$1,657,400	5.5%	$25.88
Doors & Windows	$2,468,251	8.2%	$38.54
Finishes	$2,913,117	9.6%	$45.48
Specialities	$232,485	0.8%	$3.63
Equipment	$0	0.0%	$0.00
Furnishings	$29,416	0.1%	$0.46
Special Construction	$0	0.0%	$0.00
Conveying Systems	$570,555	1.9%	$8.91
Mechanical	$4,119,269	13.6%	$64.32
Electrical	$3,054,429	10.1%	$47.69
Subtotal	$26,631,890	88.0%	$415.81
General Contractor Profit	$1,131,855	3.7%	$17.67
General Contractor Overhead	$1,131,855	3.7%	$17.67
Fees & Premiums	$625,673	2.1%	$9.77
Performance Bond	$229,834	0.8%	$3.59
Total including Bond	$29,751,107	98.4%	$464.51
Post 8-27-13 Revisions to Plan	$496,419	1.6%	$7.75
Budget as of 9-17-13	$30,247,526	100.0%	$472.26

Source: Pfeffer Development & Alaska Housing Finance Corp.

We note that this estimate of project costs includes the entire scope of the planned project, including demolition of the Anchor Bar property, demolition of all but the structural steel frame of the existing six story building, all new construction, renovation and repairs to the parking structure and a limited amount of interior specialties.

Review of Project Costs

Our client, AHFC, retained independent engineers, Brataslavsky Consulting Engineers, Inc. ("BCE") of Anchorage to complete an evaluation of the proposed costs of the project, as presented by the developer. BCE completed a review of the developer's estimate, including the Criterion general construction estimate above, as well as conceptual design information provided by the developer. In a report dated October 10, 2013, the firm notes "*…BCE's review of the cost estimate was restricted by the limitations of the design (conceptual only) for this project. BCE received a set of very preliminary architectural plans and a narrative; no structural, mechanical, or electrical drawings were provided.*" The report completes a review of the estimate and concludes "*This construction cost estimate for the Downtown Development at 716 W 4th Avenue, Anchorage, Alaska, was found to be not unreasonable in general, even though some items may be on the high side. There are several Allowances that will need to be verified (confirmed) in the future as the design is being completed.*"

Market Indications of Project Cost

Other LIO Project Cost Information

The BCE report provides good information about the appropriateness of the proposed construction cost, within the context of the design-build framework that is planned by the developer and tenant. The finding that the costs are "not unreasonable" are also supported by other anecdotal information that has been identified during the course of the LAA's efforts to replace the existing LIO building:

- In a March 2012 letter to then Legislative Council Chair, Representative Linda Menard, our client, AHFC, conveyed the results of its investigation into the availability of property at the corner of 7th & F Street in downtown Anchorage to serve as a replacement LIO facility. In that letter, AHFC concludes that costs for a 50,000 sf building solution would cost "$25 million" and an 80,000 sf building would cost "$35.5 million" for buildings that (a) do not include tenant improvements and (b) would not include on-site structured parking. These costs are $500/sf and $444/sf, respectively (core and shell only). Tenant improvements would add approximately $120/sf to each estimate, and structured parking would add an estimated $92/sf ($59,000 per space), for an adjusted completed cost of $712/sf and $656/sf. This estimate does not include any form of demolition cost.

- In November 2009, RIM Architects and Davis Constructors prepared a preliminary estimate of a proposed LIO building for the LAA. Located on Block 102 of the Anchorage Townsite, near 9th Avenue and C Street, the reported basic costs for two building concepts (a 78,330 sf alternative and a 76,475 sf alternative; gross building area) were estimates of $334/sf and $336/sf (building only; no land cost and no structured parking cost). Updated for the passage of time at 3.5% per year, and adding land at an estimated $100/sf of land area, the cost then ranges from $494/sf to $566/sf of enclosed building area. Structured parking would add the aforementioned $92/sf to this estimate, for an equivalent cost of $586/sf to $658/sf. This estimate does not include any form of demolition cost.

Other Projects

909 9th Avenue Building – NANA Regional Corporation Headquarters

In late 2012, Pfeffer Development delivered a completed renovated office building to tenant NANA Regional Corporation. This renovation project is substantially similar in scope to the proposed Subject property, which included the complete gutting of a six story office building constructed in approximately 1970 and the renovation of the building into a good to excellent quality steel frame office building containing a reported 52,589 sf.

Very important to this assignment, prior to Pfeffer Development's acquisition of the property, the LAA had attempted to purchase this building for purposes of relocating the LIO to the building, once renovated. To that end, the LAA attempted (unsuccessfully) to purchase the building, and had a property appraisal (as-is), conceptual design work and professional cost estimates completed.

Originally built as the Alaska headquarters building of Union Oil Company, the building had not been occupied by last user Chevron for some time, and because the property had asbestos-bearing materials throughout, Chevron elected to sell the building through an auction process. The buyer assumed all financial liability for removal and mitigation of asbestos-bearing materials. The new owner began the asbestos removal process and demolition of all interior improvements and systems, but did not fully complete the work. Pfeffer Development acquired the property in late 2011 for a reported price of $6,900,000, including the 56,000 sf Park Strip fronting site.

Exact amounts for this private construction project remain confidential. Waronzof has reviewed actual reported costs for the project and have found them to lie between $425/sf and $500/sf for the effective project cost, updated to our valuation date of June 1, 2014, with additional upward adjustments to include special features of the Subject property and two important differences between the projects (1) the lack of a parking structure (the building utilizes open surface parking) and (2) the absence of replacement of the exterior curtainwall system (only window glass was replaced). These adjustments total approximately $150/sf of gross building area, for an indicated cost of from $575/sf to $650/sf for the Subject property. This is based on the actual, recently completed renovation project.

In early 2010, as the LAA attempted to acquire the 909 9th Avenue property as a replacement LIO building, they had some design feasibility work done, and obtained a professional cost estimate for the renovation of the building. RIM Architects completed the analysis of design and retained HMS, Inc., a professional cost estimator, to prepare an initial estimate. Much like the BCE cost review above, the estimate was based on conceptual plans only, without the benefit of design drawings and system details. HMS estimated the renovation costs at $17.9 million or $340/sf as of 2010 construction start. To compare this cost estimate with the Subject property, we make necessary adjustments for its inclusion of all asbestos removal costs (much of which was completed by seller prior to the Pfeffer Development acquisition) and we add architecture and engineering costs, and project management, which were not included by HMS. Updating for construction cost increases at 3.5% per year results in a projected cost of $524/sf, before additional adjustments (shown below). All in, and adjusted for specialties at the Subject property, including structured parking, the HMS estimate for the 909 Building indicates a cost new for the Subject property of $626/sf, as shown below:

Item/Category	Cost	Cost/SF
HMS Estimate, less Hazmat	$15,593,292	$296.51
As-is Value of Net Shell	$1,300,000	
Contributory Value of Site Work, Foundation, Footing	$2,268,984	
Subtotal	$19,162,276	$364.38
Add A/E Fees at 6%	$1,149,737	
Add Project Management at 4%	$812,481	
Add Land Value	$5,300,000	
Effective Project Cost	$24,462,276	$465.16
Escalation at 3.5%/year for 4 years	$3,115,863	
Effective Project Cost at 6-1-14	$27,578,139	$524.41
Curtainwall Adjustment	$0	
Service Elevator	$85,000	
Parking Structure Adjustment	$4,838,000	
Emergency Generator	$158,000	
Hearing Room Improvements	$282,000	
Subtotal Adjustments	$5,363,000	$101.98
Adjusted Effective Project Cost	$32,941,139	$626.39

Source: Legislative Affairs Agency, HMS, Inc., Waronzof

The HMS estimate, as presented and adjusted above, is quite consistent with the actual costs for the completed renovation of the 909 9th Avenue building, completed in late 2012. Because of the similarity of size, age and architectural style of this project with our Subject property, we consider the cost indications of the actual renovation as well as the 2010 LAA/LIO renovation cost estimate, to be important and credible indications of the cost to complete the renovations and expansion to the Subject property. These two indications suggest a cost in the $575/sf to $625/sf for the Subject.

Camp Denali Readiness Center

We attempted to identify recently-begun or completed special purpose properties across the state, with a goal of locating similar properties that we might examine to confirm cost new. We identified a project located at Joint Base Elmendorf-Richardson, near Anchorage, now under construction. The Camp Denali Readiness Center is an expansion of an existing facility, and will serve the needs of the U.S. Coast Guard and the Alaska National Guard. In a form of "public-public" partnership, this building will be built for the benefit of the USCG and ANG but will be owned by the Alaska Industrial Development and Export Authority ("AIDEA"). As a public project, we have been able to review costs of the project and gather detail about the nature of the occupancy, project cost and terms of the basic lease transaction.

The Camp Denali Readiness Center is, in essence, an office building. It contains a gross building area of 27,770 sf in a two story structure. It is a steel frame building with concrete masonry exterior, situated on a slab on grade footing and foundation. The building contains net room areas of 26,656 sf, of which 17,804 sf are offices, conference rooms and waiting areas, with 3,482 sf devoted to mechanical and telecom rooms, storage, stairwells and elevators, 3,531 sf to corridors and circulation, and 1,839 sf

devoted to restrooms, lockers and shower areas. The building is intended for twenty four hour per day operations. Total cost of the project is reported at $15 million, or a gross cost of $540.15/sf. The following is our evaluation of the project, with adjustments to simulate the Subject property (includes removal of costs for certain site costs (antenna relocation, extension of access road and utility corridor relocation)) and addition of adjustments for the special features of the Subject property. We note that this project does not include material building demolition costs:

Scheduled Construction Cost	$ 13,610,627	$ 490.12
Administrative & Oversight Costs (AIDEA)	$ 1,389,373	
Total Project Costs	$ 15,000,000	$ 540.15
Adjustments:		
Antenna Relocation	$ (1,067,716)	
Utility Corridor	$ (1,199,710)	
Spur Road Construction	$ (523,977)	
Share of Admin & Oversight	$ (258,553)	
Subtotal Adjustments	$ (3,049,956)	$ (109.83)
Net Costs to Project (No Land Cost)	$ 11,950,044	$ 430.32
Additional Adjustments:		
Equivalent Downtown Anchorage Land Cost	$ 1,666,620	
Deduct Surface Parking Costs (Est)	$ (174,659)	
Parking Structure Adjustment	$ 2,537,000	
Hearing Room Improvements	$ 282,000	
Subtotal Adjustments	$ 4,310,961	$ 155.24
Adjusted Effective Project Cost	$ 16,261,005	$ 585.56

Source: AIDEA, Waronzof

We note that because this project is underway at this writing, we elect to make no specific adjustment for cost escalation to our June 2014 valuation date.

We see an adjusted cost of $585/sf suggested by our evaluation of the Camp Denali Readiness Center as a similarly specialized (but smaller) government use office building now under construction in the Anchorage area.

Summary of Cost Indications for the Subject Property

Our analysis of cost indicators has indicated the following:

	Low Cost/Gross SF	Mid Cost/Gross SF	High Cost/Gross SF
Reported Costs of Subject Project		$695.04	
March 2012 AHFC Letter - LIO - 7th & G Site	$656.00		$712.00
Nov 2009 RIM Arch. Estimate - Block 102	$586.00		$658.00
909 9th Ave - NANA Hdqtrs	$575.00		$650.00
909 9th Ave - LIO Use - HMS, Inc. Cost Estimate		$626.00	
Camp Denali Readiness Center		$585.00	
Average Indicated Cost		$638.12	
Median Indicated Cost		$650.00	

Source: Waronzof

We see from the above comparison that there is a strong tendency for likely costs of the Subject property to lie in the $600/sf range, with the range clearly from the high $500's/sf to the mid-$600's/sf. We place substantial weight on the proposed actual costs of the Subject, and note that this estimate includes certain other costs which are not reflected in the cost comparables, such as demolition of the existing building improvements and Anchor Bar building, provision of interim rental space during construction ($1 million or $15.61/sf) and, to some extent, contingency ($11.90/sf). Net to Subject is then about $630/sf. We also note that of the reported and estimated costs shown above, only the Subject property proposal and the 909 NANA Headquarters project have a developer profit component embedded in them; the other indications of costs do not include a developer profit component (necessary where a public-private partnership or build-to-suit project is contemplated). With developer profit margins in the 10% range, this adjustment would increase the average indicated cost shown above to almost $700/sf.

We also note (again) the significance of the BCE review of proposed costs, which found them to be "not unreasonable" given the project information they reviewed.

This review of proposed actual costs for the Subject property and the other indications of costs for either LIO use or similar buildings is intended to address the central question of whether or not project costs are appropriate and fair to landlord and tenant; we believe that this comparison and information review supports the conclusion that anticipated costs of the project, at $44.516 million, are in line with other indications of cost for a specific Anchorage LIO occupancy in the downtown area, and may be evaluated as appropriate for landlord and tenant in this rental valuation.

Core & Shell Costs New

This comparative cost analysis is also intended to allow us to form an opinion of the likely range of core and shell (only) costs for the Subject property, which we need to understand because the proposed project incorporates the utility and worth of an *existing* steel frame, footings, foundation and site work, as well as the *existing* adjacent parking structure. In short, our rental value analysis needs to take into account the "used" nature of these retained improvements, as well as the special (new) features of the building. Understanding the cost new of the core and shell is central to that exercise.

To understand core and shell costs (excluding tenant improvements), we have discussed core and shell construction costs generally with HMS, Inc., incidental to our discussion of the 2010 LIO cost estimate. This discussion revealed that core and shell costs for mid-rise steel frame construction likely lie in the $325/sf to $400/sf range, depending upon a variety of factors, including the location and access to the job site.[17] Using the reported costs for the 909 9th Avenue building, making adjustments for the depreciated nature of the building frame, foundation, footing and site work, we estimate the effective cost new of the core and shell was $348/sf. We consider this a strong lower limit of core and shell cost, due to the much more accessible job site, with very good perimeter access on the north and west, good access to lower-traffic 9th Avenue on the south and limited access to busy I Street on the east.

Because we are preparing a market rent estimate, our analysis depends on establishing a "market" estimate of project costs, and a "market" estimate of rate or return. We now turn from a discussion of the appropriateness of the developer's anticipated costs to the costs that we believe the marketplace would anticipate for the Subject property. Some of these estimates are the same or similar to those assumed by the developer, particularly for the specialty items that are included in the renovated and expanded building. The balance of costs are based on generalized cost information, such as core and shell costs, and typical relationships of soft costs. By considering the "market cost" of the building, we, step away from the specific costs anticipated by the developer, and look at costs in a more generalized way. In this portion of our analysis, we also take into account the depreciated nature of the existing frame and foundation of the building, as well as the existing parking structure.

Parking Structure – Cost New and Depreciation

Our comparison of reported costs cited above allowed us to both understand the developer's proposed costs, as well as form an opinion about the probable range of cost new for the core and shell of the building (exclusive of tenant improvements). In order to confirm the cost new of the parking structure, we examined the report costs for the

[17] Job site access can have a material influence on construction cost. Sites witch have easy "four sides" access to the building footprint experience lower construction costs. Where access is restricted, such as at our Subject with existing buidings on the south and east, exisitng parking structure on the west and (the inability to block traffic) 4th Avenue on the north, costs are higher.

Linny Pacillo public parking structure located approximately three blocks from the Subject property, and completed in August 2008. This 830 space parking structure had a reported net cost (adjusted for the presence of retail space on the ground floor) of $48,500 per space. This is the most recently-constructed parking structure we could confirm; the building is owned by our client AHFC and leased to the Anchorage Economic Development Authority for its downtown parking operations. Waronzof has updated this construction cost at 3.5% annually, based on input from HMS, Inc., and has made an adjustment to the indicated cost to simulate the lack of a personnel elevator in the Subject property parking structure. The indicated cost new is $59,276 per space. For the planned 100 space configuration, this is then a cost new of $5,867,600. The reader will also note our application of an 18% physical depreciation adjustment to the cost new of the parking structure, reflecting 1% annual depreciation and an age of 18 years.

Contributory Value of Land

In our rental value analysis, a formal valuation of land, as if vacant, is beyond the scope of this appraisal. In order to allow us to address depreciation in the remaining frame, etc., as well as the parking structure, we elect to separate land from the remaining improvements (conceptually after demolition, but before addition of the new improvements). Accordingly, we have reviewed recent land sales activity reported in downtown Anchorage and have considered these transactions as we allocate a land value for purposes of our rental value analysis.

Location	Price	Size	Price/SF	Date of Sale	Comments
624 F Street	$1,200,000	6,750	$177.78	August '09	Assemblage; site of proposed LIO new building.
326-400 L Street	$3,575,065	39,947	$89.50	Feb '11	Three separate transactions to assemble site.
SWC 8th & K Street	$1,500,000	21,000	$71.43	July '11	Corner site near Park Strip

Source: Reliant Advisors, Black-Smith, Bethard & Carlson

Among the several comparables that comprise the three reports above, there is the high-water mark set by the 624 F Street transaction, which was an assemblage purchase by Pfeffer Development (owner of adjacent property to this purchase) and which was proposed as a site for a new LIO office (re: March 2012 AHFC letter to Senator Linda Menard). This is the highest of the transactions summarized above; there are higher-priced sales for land in downtown Anchorage but they precede the 2008 financial crisis and are not included above. The two 2011 transactions include (at 326-400 L Street) three separate purchases by developer Gerry Neeser to assemble a bluff-front view site for potential office development at 4th and L Street, approximately four blocks west of the Subject property. Finally, the remaining transaction at 8th and K is the largest of several sales that reflect sales prices for lot or lots in the Anchorage townsite, south of 6th Avenue, in the $70 to $90/sf range.

Because of the assembled size of the Subject site, its location diagonally across from the Courthouse Complex and between the Courthouse and Municipality of Anchorage headquarters, Anchorage Performing Arts

Center, and because of its suitability for a summer, visitor-oriented site near the Captain Cook Hotel, National Park Service Info Center and along historic 4th Avenue, we believe a value, if vacant, in the vicinity of $150/sf is appropriate for use as an allocated land value in this rental value appraisal report.

Summary of Project Cost New – Market-Based Information

Located on the following page is our summary of project cost new, based upon several key inputs that vary from the actual project costs proposed by the developer. This market-based inputs include the contributory value of land, cost new and depreciation of the existing steel structure, footing and foundation that will remain, cost new and depreciation for the existing parking structure, and the anticipated cost new of core and shell.

The reader should note that in the analysis that follows, our costs now omit almost all of the anticipated $7,685,000 cost of tenant improvements. $7,500,000 of this cost is eliminated in the following estimate, because this amount will be contributed by the LAA, by agreement of the landlord and tenant, leaving only $185,760 as the landlord's share of tenant improvements. The reader will also note that we have used market-based estimates of soft costs, including financing costs, general & administrative costs, and project management. Specialty expenditures are those that are specific to this tenant and this occupancy, and include demolition and relocation costs, as well as specialty improvements to the building that are over and above interior tenant improvements.

No marketing costs or commissions are included above because this is a build-to-suit project and there are no additional marketing costs to fully occupy the building. The reader will also note the inclusion of developer profit, necessary and appropriate to compensate the developer for the act of developing (or redeveloping) the property. We have used a 10% developer profit allowance, which is based on common appraisal practice and some market survey evidence (Pricewaterhouse Cooper's Real Estate Investment Survey).

Category	Quantity	Cost/Value	Extension	Per Sf
Land	31129	$150.00	$4,669,350	
Parking Structure	100	$59,276.00	$5,867,600	$148.55
Less Depreciation	18%		-$1,056,168	
Structural Frame	45623	$67.86	$3,095,977	
Depreciation in Frame	40%		-$1,238,391	
Subtotal			$11,338,368	$133.20
New Building (C&S)	64048	$350.00	$22,416,800	
New Building Tis	64048	$0.00	$185,760	
Specialty Expenditures				
Demolition Costs			$2,553,000	
Temporary Relocation Costs			$1,000,000	
Hearing Room Improvements			$281,613	
Freight Elevator			$85,133	
Custom Casework			$172,956	
Emergency Generator			$158,696	
Outdoor Area			$431,419	
CATV Wiring			$65,000	
Subtotal Hard Costs			$27,350,376	$427.03
Subtotal Land & Hard			$38,688,744	$604.06
Soft Costs				
Financing	5%		$1,934,437	
G&A	5%		$1,934,437	
Project Management	4%		$1,547,550	
Subtotal Soft Costs			$5,416,424	$84.57
Hard & Soft Costs			$44,105,168	$688.63
Developer Profit	10%		$4,410,517	
Total Project Costs			$48,515,685	$757.49

Source: Waronzof

From a market perspective, then, a project cost of approximately $48.515 million is indicated, which recognizes the contributory value of land, the depreciated cost contribution of building frame, foundation and parking structure, the cost of new core and shell, the absence of most tenant improvements costs (because the tenant will contribute that cost directly through a lump-sum $7,500,000 contribution), the special expenditures for this project, soft development costs and developer profit.

We have several observations about the above "market" perspective on the costs of this special purpose building and occupancy in relationship to the developer's proposed costs: 1) the reader may note that this built-up analysis suggests the cost of the "as-is" portion of the project is $11.34 million; this may be compared with the developer's acquisition cost of $7.89 million. Our market estimate of core and shell cost of $350/sf or $22.416 million, can be compared with the developer's anticipated costs of approximately $18 million. Temporary relocation costs of $1 million are included above, but were excluded in our comparison of developer's proposed costs (in which temporary quarters are included) with other

project cost indicators (which do not include the temporary quarters costs).

What the above costs tell us is how the marketplace of developers and investors would react to the specific project proposed, taking into account the actual condition of the improvements that will remain, and adding the likely project costs that would be incurred along the way and the avoidance of tenant improvements cost. We see, in comparison with the other indications of project cost, that costs are higher (i.e. $757/sf) but we also acknowledge the important differences between the costs above and the comparable costs evaluated.[18]

Generally speaking, the excluded temporary relocation costs and developer profits largely offset the elimination of most tenant improvement costs, so the comparisons remain relevant. We emphasize that developer profit is a necessary and appropriate element of cost; without it there is no "developer" or no public-private partnership. The developer assumes risk and cost in assembling the project and meeting the needs of the tenant; the profit component compensates for that risk.

We conclude that the anticipated project cost of $48.516 million is the appropriate cost basis in this special purpose property upon which to base our estimate of market rent. The costs are consistent with those demonstrated in the marketplace, reflect the condition of the property upon commencement of the project as well as the specialized costs that will be incurred. Like any estimate of cost or value, we believe that this estimate represents the midpoint of a range of cost that differing developers or investors would consider; the Pfeffer Development proposal of $44.516 million (with all tenant improvement cost) and $37.02 million (omitting the tenant improvement costs) lies at the lower end of the range.

Determination of the Market Rate of Return

Having estimated the market-based project cost at $48.516 million, we now turn our attention to determining a market-based rate of return to be applied to this cost. At its simplest, application of the rate of return to the cost indicates a basic annual rent for the Subject property. In other words, were a developer to fund the project, he or she would require a market rate of return on $48.516 million investment to justify such investment. Assuming an all-equity investment, that rate of return is the basic triple net rent equivalent. This rate has to be further evaluated, however, in order to take into account other elements of the lease agreement, including how rent will escalate over time, the risks that rent will be received (notable in the context of the annual appropriation clause of the lease), the likelihood of renewal or extension, and the value of the reversion (return of the property to the landlord at the end of the lease).

[18] For example, as mentioned, our cost comparisons do not include temporary relocation costs; only the 909 building cost included material demolition. Developer profit is not present in the LIO building estimates, per se, of AHFC and HMS, Inc. In the above analysis, tenant improvements at the Subject property are largely excluded, while they are included in the cost comparables.

There are several ways in which the rental rate of return can be determined and several benchmarks that may be considered. Among them are:

- The application of a market-indicated overall capitalization rate as an indication of rate of return;
- The analysis of proposed or typical debt and equity investment using a band of investment approach to rate construction;
- By direct comparison with other similar transactions (direct application of a rent based on percentage of cost); and
- By looking at total return on investment from rents over the term of the lease and at reversion income.

In this analysis, we discuss all four methods, because each gives insight into the percentage amount that should be considered a market rate, that can be applied against the cost amount estimated above to indicate rent. We also note that the total return method is effectively a check on rents estimated via any one of the first three methods, to assure that the total return that results from the rent rate indication also falls within an acceptable range of market rates (of total return), and that rent is neither too high or too low.[19]

Evaluating the total return rate is important in this assignment because it makes sure that our analysis takes into account the effects of a planned annual escalation in rent as well as the impact of the reversion. Because special purpose properties are different from generic properties, they manifest depreciation in value differently, precisely because the special nature of the improvements may have less or lower value to a non-specialized user, should the specialized occupancy (in this case, the LIO use) end.

Consideration of a Level Rent Alternative

We have also been tasked with estimating market rent under either of two alternatives: (1) with an escalating rent over the ten year term of the lease, and (2) with a level rent over the same term. Our analysis does this by first evaluating market rent under an escalating rent structure, which is the more common type of lease structure for shorter term leases (special purpose or generic). We then use a level annual equivalency analysis to convert the stream of escalating rent to its "level" or flat rent financial equivalent.

[19] The reader should recall that in real estate analysis, analysis methods distinguish between the instantaneous rate (i.e. a rate at a specific point in time) and the total return (the rate earned or anticipated over the life of the investment). Instantaneous rates are commonly referred to as "capitalization" rates or "cap" rates in real estate, because it reflects a relationship between net income and value at a specific point in time. Total return rates are often referred to as the "discount" rate or alternatively the "internal rate of return" and reflect the return over the life of the investment, including sale. In this rental value analysis, our "cap" rate equivalent is the relationship between the amount of triple net rent that is charged and the cost of the project. Sometimes, for a special purpose property or long term ground lease, appraisers will call this the "rent" cap rate or "ground lease" cap rate.

Rate of Return – Market Capitalization Rates as an Indicator

We begin our discussion of rate of return – based on market capitalization rates – by quoting three sources: (1) Reliant Advisors, an Anchorage based appraisal and consulting firm, and author of the region's definitive office market conditions survey; (2) Black-Smith, Bethard and Carlson – from their September 2011 appraisal of the 909 Building completed for the LAA; and from RREEF's Spring 2013 report on national real estate market conditions (RREEF is a widely-respected real estate investment manager and real estate researcher).

Reliant Advisors

"Overall Annual Rates (OAR's) [aka "Cap Rates" – Ed] vary widely, as they are heavily dependent on a given property's income generation and risk profile. In the Anchorage office market, OAR's are typically between 7.0% and 9.0%. Institutional-grade properties have been known to fall below this range in a few cases, while distressed/high risk properties have been known to fall above this range.

Over the past decade, the Anchorage office market has shown a tendency towards declining OAR's. These declines were primarily due to favorable interest rates and favorable changes in investor risk perceptions. While recessionary concerns have been driving sale prices down (and OAR's up) throughout much of the lower 48, Alaska is considered to be fairly insulated from these concerns at this time (please refer to the Regional Area Data section of this report).

To date, data on how Anchorage office market OAR's have responded to turmoil in national markets is mixed. Economic uncertainties outside of Alaska have made traditional Anchorage investors more cautious, and less aggressive with property bids. Meanwhile, asking prices tend to disregard these potential risks, and are reflective of the strengths of the local office market. These market tendencies have frustrated some potential sales, as the bid-ask gap is often too substantial for both parties to reach an agreement. Furthermore, interest rates have slightly increased, the availability of capital has decreased, and loan terms have tightened, placing further pressure on buyers. Consequently, in large part, the Anchorage office market appears to be taking a "wait and see" approach to transactions.

Due to limited sales, trends in OAR's have been a controversial topic in recent years. The market has now provided sufficient sales activity to indicate general trends and a review of the data indicates surprising stability in rates during the 2009 recession, with only a 50 to 75 basis point increase. What is even more interesting, is that with the recovery of the capital markets, nearly all of this increase was erased in 2010, and current rates appear to be only slightly higher than they were in 2008."

Black-Smith, Bethard & Carlson

"From 2006 through 2008, OAR's reported by the Korpacz Real Estate Investor Survey for Pacific Northwest office markets suggest appreciation, but an increase in cap rates is noted for the 2nd quarters of 2009 and 2010. The Pacific

Northwest market appears to have reversed the upward trend, with a decrease in rates reported in 2010.

National indicators have increased over 1 basis point in the past two years. A sampling of the Anchorage office market shows signs of trending with the national markets. OARs extracted from local sales generally support the national market.

Property	Date	Buyer	Area	OAR
1227 W. 9th Ave.	1-06	User/Investor	Fringe CBD	8.4%
810 "N" St.	3-06	Investor	Fringe CBD	8.8%
3000 'A' St.	3-06	Investor	Midtown	9.4%
3201/3301 'C' St.	3-06	Investor	Midtown	10.1%
360 W. Benson Blvd	3-06	Investor	Midtown	8.8%
900 W. 5th Ave.	2-07	Investor	CBD	7.3%
1199 E. Dimond Blvd.	3-07	User/Investor	South Anchorage	7.7%
2605 Denali St.	10-07	Investor	Midtown	7.7%
1709 Bragaw St.	1-08	User/Investor	East Anchorage	9.3%
3003 Minnesota By-pass	4-09	User/Investor	Midtown	7.1%
2121 Abbott Rd.	6-09	Investor	South Anchorage	9.0%
500 W. 6th Ave.	2-10	Investor	CBD	7.0%
431 W. 7th Ave.	5-10	Investor	CBD	10.0%
441 W. 5th Ave.	6-10	Investor	CBD	10.0%*
4300 Boniface	3-11	User	East Anchorage	8.2%

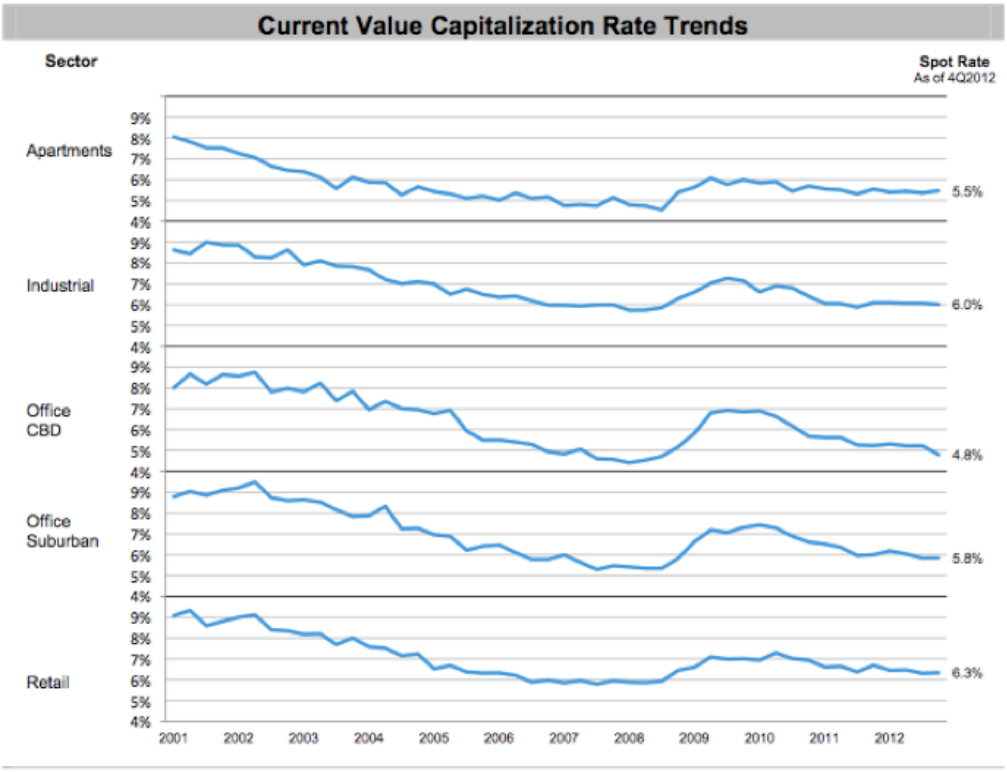
*Sale price + repairs ÷ projected NOI.

Local sales trend near the national indicators and recent transactions reflect a range from 7.0% to 10.1% with an average of 8.4%. Although the national financial crisis is of concern there has not been evidence of increased capitalization rates in the Anchorage market."

RREEF – U.S. Real Estate Strategic Outlook – February 2013

"Capitalization (cap) rates stabilized in 2012, moving only slightly lower than a year earlier. Cap rates for warehouse and retail properties, which had not compressed as much as cap rates for other property types, declined the most in 2012, by 40 basis points (bps) and 20 bps, respectively. Still, cap rates remain at historically high spreads to 10-year treasuries. Periods of high spreads to treasuries typically are followed by above-average performance during the following 3 to 5 years. While the top few markets have become expensive, other metros will still be able to provide investment opportunities and capital may be drawn to these markets in 2013 due to higher yields and a greater discount to replacement cost. Capitalization rates will likely decline modestly during the coming year, but compression will be the greatest in the markets and sectors that have lagged the recovery.

Apartment and CBD office have the lowest capitalization rates, but for different reasons. Apartment investors are accepting low capitalization rates due to anticipated rising rents translating into NOI gains. CBD office, on the other hand, has high, but improving vacancy rates and investors are willing to accept lower in-place yields to achieve income gains later the cycle."



Pricewaterhouse Cooper's Real Estate Investor Survey – 2nd Qtr 2013

For CBD office investments – PwC reports overall cap rates ranging from 4.25% to 10%, with an average of 6.63%, unchanged from the 1st quarter of the year. Cap rates are presently clustered rather closely, from a low of 5.7% for apartments to a high of 6.63% for office.

In evaluating these indications of cap rate, from both Alaskan sources as well as national cap rate survey data, we are mindful of two important considerations: (1) the size of the investment and (2) the credit nature of the tenant (effectively, the State of Alaska). As a $40 to $48 million specialty investment, the Subject property would likely attract the interest of domestic property investors, from the northwest and beyond. These types of investors hold Alaskan income properties from time to time, and we believe that this investment is sufficient to attract investors of this scale. What is quite important is not the ability to attract any single outside investor, but the ability to attract more than one, and to get them to compete. This competition would affect rates (down) and would result, we believe, in a cap rate that is at the low end of the Alaskan range of cap rate. Notwithstanding competition among investors, the competent domestic investor would also expect compensation for the relative risk of small market, Alaskan investment. Waronzof believes that this Alaska premium for the domestic investor is from 100 to 200 basis points. This sets a floor for cap rate as we add, for example, 100 basis points to the 5.8% cap rate indication for suburban office buildings in the RREEF Strategic Outlook. This suggests a floor of

6.8% for the Subject property's market rate of return, possibly as high as 7.6%, if we add 100 basis points to the 2nd Quarter PwC Investor Survey indication.

While these rates are slightly below the indications of the survey information of Anchorage firms Reliant and Black-Smith, Bethard & Carlson, we also want to take into account the credit nature of the lease to the State of Alaska – as well as the lease condition that makes payment of rent subject to annual appropriation.

Impact of the Annual Appropriation Clause

There is little question that the financial stability of a government entity is an important characteristic for investment risk assessment purposes. Ultimately, it is the capability of a government entity to raise taxes to meet its obligations that underpins its ability to borrow at rates below most commercial concerns. In real estate, where a tenant has strong creditworthiness, the properties occupied by that tenant attract better investor interest, which manifests itself in higher prices and lower overall returns. Ironically, the "annual appropriation" clause of a lease offsets some (but not all) of the advantage of this superior creditworthiness. These provisions are not highly unusual, but are much less common where special purpose property financing or occupancy is concerned. Typically, it takes a very long term lease and a strong promise of payment of future rents to attract an investor to a highly specialized property (e.g. sewer treatment plant), where that investor has few options for reuse or recovery should the tenant default and fail to pay rent. When generic property is leased, however, tenants like state and local agencies can get away with an annual appropriations clause, because the property is generic (and the landlord can release without significant loss) and because investors will compete for that state or local agency lease. Notwithstanding the presence of the annual appropriations clause, we believe the market's perception of the actual probability of a failure to appropriate (and subsequent loss of occupancy and rent) is quite low; it is highly unusual to find defaults for any reason by government agencies. Thus, while we have to acknowledge that the clause exists (and in a time of government shut-downs and financial catastrophe due to a threatened default by the U.S. government it seems slightly more possible) and likely has some limited affect upon risk and market rate of return, we believe, overall, the annual appropriations risk increment is small – likely on the order of 25 basis points.

We evaluate the appropriate indication of cap rate, as the basis for a rental rate of return and triple net rent equivalent in the context of an *escalating rent* – annual escalations under the lease under negotiation. The developer's lease proposal assumes an escalation of 2% per year in the triple net base rent, as well as an option for extension of the lease for one additional ten year term, but without a specified rent for the option period. This pattern of annual escalation is not atypical of many property leases and is well within the range of escalation patterns for institutional grade properties reflected in the cap rate surveys described above.

We believe that a suitable range of cap rate for this investment lies in the 7% to 7.5% range. A rate in this range appropriately reflects competition for this investment among qualified institutional investors, reflects the benefits of a strong credit tenant, takes into account the implications of the annual appropriations limitation, as well as the open-ended nature of the lease option and unspecified rent upon extension.

Rate of Return – Debt & Equity Band of Investment Indicator

Band of investment analysis is a form of cap rate analysis that considers the cost and amount of debt, the return on equity requirement and the amount of equity. It is, in effect a weighted average of the cost of capital for a real estate investment. In this specific instance, the Pfeffer Development rent proposal uses this specific methodology, employed by the developer to determine rent based upon debt service requirements. This is not uncommon. For more traditional real estate investments, the requirements of mortgage lending routinely set the basis for debt service, net operating income, and indirectly, the cash of cash return to the equity investment.[20]

The developer's proposal is based upon the underwriting requirements of the Alaska Industrial Development and Export Authority ("AIDEA"), one of the important secondary source of commercial real estate finance in Alaska. As of this writing, AIDEA's lending requirements include a maximum loan of $20 million, with an interest rate at 5.68%, with a 25 year amortization. At all times, AIDEA is a participating lender, and not a primary lender. Almost all AIDEA commercial property loans are originated by commercial banks, and the commercial bank holds a portion of the loan, typically with a slightly higher effective rate and shorter amortization term. In this instance, the developer's proposal reflects the expectation that the originating lender lends at 6.375% and their portion of the note has a 15 year amortization requirement.

In our market rate analysis, based on our inquiry of AIDEA about typical costs of the originating commercial bank lender, we assume the originator's portion of the financing is at 6.5%, with a 25 year amortization. Unlike the developer's proposal, which assumes a 75% loan to cost ratio (and a 25% equity investment), our market analysis assumes a somewhat more conservative 60% loan and 40% equity investment. We use the lower loan/higher equity investment because we believe it is more consistent with the institutional investor perspective that we believe would define market rate of return. The affect of this difference (between our assumption and the developer proposal) is an approximately nine percent lower annual debt service requirement.

[20] Real estate lenders traditionally require a margin between the actual net operating income from a property and its annual debt service. This relationship is commonly called a "debt service coverage ratio". Debt service coverage ratios can vary, but typically range from at least 1.10 to 1, to as high as 1.40:1, depending on the property, tenant, market cycle and other factors. A 1.20:1 debt service ratio means that net operating income must be 1.20 x debt service, providing a margin of safety in the event of a loss of rent or unexpected property operating expense. That margin of safety, when not used for debt service (such as in the ordinary course of business) provides a cash on cash return to the investor. Consequently, most property investments, when using conventional mortgage debt, have positive cash flow to the equity because the lender requires a debt service coverage ratio. In the early years of an investment, this coverage ratio may be the only cash flow from the investment (after debt service).

The following is our calculation of effective cost of debt:

Market Rate Loan Assumtions - Assume 60% Debt 40% Equity

AIDA		%% of Loan	%% of Project
Max Loan	$20,000,000	90.051%	54.031%
Loan Term - Mos	300		
Interest Rate	5.68%		
Mortgage Constant	0.07498599		
Additional Financing - Bank			
Max Loan	none		
Likely Loan	$2,209,613	9.949%	5.969%
Loan Term - Mos	300		
Interest Rate	6.50%		
Mortgage Constant	0.081025		
Total Loan	**$22,209,613**	**100.0%**	**60.000%**
Combined Mortgage Constant	***0.075587***		
Combined Interest Rate	5.762%		
Imputed Payment to Principal	***0.017971***		
Debt Service coverage Ratio	***1.29***		

Source: AIDEA, Waronzof

The reader will note that the dollar amounts show above are based upon the developer's proposed costs, but reallocated to reflect a 60% loan and 40% equity investment as well as a 1.29:1 debt service coverage ratio.

The key element of the debt analysis is the mortgage constant (.075587), which is the annual debt service (interest and principal amortization). The resulting effective interest rate is 5.762%. It is the mortgage constant that sets the basis for debt service and thereby, the debt coverage ratio and resulting indication of a market rent, based on band of investment analysis.

Based on the indications of the NCREIF Index, a national index for institutional real estate investment, we have selected a 6.5% cash on cash equity return.

The final step is to combine the costs of debt with the return on equity investment, as shown below:

Component	Mortgage Constant	Percentage of Investment	
Debt	7.559%	60.000%	4.535%
Equity	6.500%	40.000%	2.600%
Composite			7.135%

The resulting indication of rate of return is 7.135%.

Rate of Return – Direct Indication of Return on Cost

Two of our cost comparisons provide enough information to allow us to relate the rent payment to the cost of the project; the triple net lease agreement for the 909 Building and the rents paid by master tenant Alaska National Guard to AIDEA for the Camp Denali Readiness Center.

While the specific details of the true cost and the actual rent at the 909 Building remain confidential, we are able to report that we are able to attribute a rate or return on project cost of 6.52% from the lease transaction. This cost represents the year one rent compared to project cost. The lease, however, has an atypically high rate of annual escalation over its twelve year term. Annual escalations are 3% per year for the first seven years and 5% per year thereafter. Consequently, we can say that a 6.52% return on cost is a strong lower limit of return on cost, and that were we to take into account the strong annual escalation of later years, the return would approach 7%.

The Camp Denali Readiness Center lease is based upon a level amortization schedule; we understand at the end of the lease, the ANG will either own the improvements, or have a nominal buy-out. The level rent is based upon a 20 year amortization at an interest rate of 7%. The annual rent rate (return on cost) is then .09304 or 9.304%. The return portion of this rent is 7%; the amortization portion is 2.304%.

Rate of Return – Indications of Market Cap Rate, Bank of Investment and Direct Return on Cost

Our analysis clearly puts the rate of return in the vicinity of 7%. Our market cap rate indication is from 7% to 7.5%; our band of investment analysis suggest 7.135%, and our two direct return on cost indications are at 6.52% and 7%. We conclude to the middle indication, based on our band of investment analysis, at 7.135%, in the belief that it represents a very real-world debt and equity approach, Alaska-based financing terms, yet assumes financially capable and competitive investors who are expected to make a substantial equity investment in the property.

Our three indications of market rate of return suggest a rent of:

Project Cost, Market Based:	$48,515,685
Market Rate of Return:	7.315%
Indicated Market Rent	$3,461,695

Rate of Return – Total Return

Before we regard our indication of rent as final, we apply a total return test to the rent based on the escalation of rent annually at the developer's proposed 2% increase.

We see in the evaluation of project level return, ten year project-level internal rate of return at 7.82%, 8.45% and life of building (40 years) at 8.38%. These returns, on an all equity basis, are at the low end of the

PROJECT LEVEL RETURNS

Ten Year Returns			Twenty Year Returns			Life of the Building		
Cash Flows	Reversion	Cash Flow & Reversion	Cash Flows	Reversion	Cash Flow & Reversion	Cash Flows	Reversion	Cash Flow & Reversion
-$48,515,685		-$48,515,685	-$48,515,685		-$48,515,685	-$48,515,685		-$48,515,685
$3,461,695		$3,461,695	$3,461,695		$3,461,695	$3,461,695		$3,461,695
$3,530,929		$3,530,929	$3,530,929		$3,530,929	$3,530,929		$3,530,929
$3,601,547		$3,601,547	$3,601,547		$3,601,547	$3,601,547		$3,601,547
$3,673,578		$3,673,578	$3,673,578		$3,673,578	$3,673,578		$3,673,578
$3,747,050		$3,747,050	$3,747,050		$3,747,050	$3,747,050		$3,747,050
$3,821,991		$3,821,991	$3,821,991		$3,821,991	$3,821,991		$3,821,991
$3,898,430		$3,898,430	$3,898,430		$3,898,430	$3,898,430		$3,898,430
$3,976,399		$3,976,399	$3,976,399		$3,976,399	$3,976,399		$3,976,399
$4,055,927		$4,055,927	$4,055,927		$4,055,927	$4,055,927		$4,055,927
$4,137,046	$49,250,543	$53,387,589	$4,137,046		$4,137,046	$4,137,046		$4,137,046
	IRR =	**7.82%**	$4,219,787		$4,219,787	$4,219,787		$4,219,787
			$4,304,182		$4,304,182	$4,304,182		$4,304,182
			$4,390,266		$4,390,266	$4,390,266		$4,390,266
			$4,478,071		$4,478,071	$4,478,071		$4,478,071
			$4,567,633		$4,567,633	$4,567,633		$4,567,633
			$4,658,985		$4,658,985	$4,658,985		$4,658,985
			$4,752,165		$4,752,165	$4,752,165		$4,752,165
			$4,847,208		$4,847,208	$4,847,208		$4,847,208
			$4,944,152		$4,944,152	$4,944,152		$4,944,152
			$5,043,036	$53,649,314	$58,692,350	$5,043,036		$5,043,036
				IRR =	**8.45%**	$4,629,507		$4,629,507
						$4,722,097		$4,722,097
						$4,816,539		$4,816,539
						$4,912,869		$4,912,869
						$5,011,127		$5,011,127
						$5,111,349		$5,111,349
						$5,213,576		$5,213,576
						$5,317,848		$5,317,848
						$5,424,205		$5,424,205
						$5,532,689		$5,532,689
						$5,079,008		$5,079,008
						$5,180,589		$5,180,589
						$5,284,200		$5,284,200
						$5,389,884		$5,389,884
						$5,497,682		$5,497,682
						$5,607,636		$5,607,636
						$5,719,788		$5,719,788
						$5,834,184		$5,834,184
						$5,950,868		$5,950,868
						$6,069,885	$14,142,052	$20,211,938
							IRR =	**8.38%**

Source: Waronzof

sought by institutional investors today, but they are within the range. Given the inherent assumption here of continued occupancy by the LIO through lease extension and renewal, the rates of return are satisfactory.

In the analysis below, we focus upon the equity returns, assuming a combined debt and equity investment, as described earlier in this analysis, where we see an equity return over the life of the building at 10.35% - again, a bit on the low side, but within the range of equity returns for institutional investment.

Year	Equity Invest	NOI	Debt Service	Equity Dividend	Reversion	CTO+Rev	**Equity IRR**	ROE
0	$19,406,274					-$19,406,274	**10.35%**	
1	$19,954,908	$3,461,695	$2,225,772	$1,235,923	0	$1,235,923		6.37%
2	$20,535,151	$3,530,929	$2,225,772	$1,305,156	0	$1,305,156		6.54%
3	$21,148,826	$3,601,547	$2,225,772	$1,375,775	0	$1,375,775		6.70%
4	$21,797,858	$3,673,578	$2,225,772	$1,447,806	0	$1,447,806		6.85%
5	$22,484,284	$3,747,050	$2,225,772	$1,521,278	0	$1,521,278		6.98%
6	$23,210,260	$3,821,991	$2,225,772	$1,596,219	0	$1,596,219		7.10%
7	$23,978,063	$3,898,430	$2,225,772	$1,672,658	0	$1,672,658		7.21%
8	$24,790,104	$3,976,399	$2,225,772	$1,750,627	0	$1,750,627		7.30%
9	$25,648,931	$4,055,927	$2,225,772	$1,830,155	0	$1,830,155		7.38%
10	$26,557,241	$4,137,046	$2,225,772	$1,911,273	0	$1,911,273		7.45%
11	$27,517,883	$4,219,787	$2,225,772	$1,994,014	0	$1,994,014		7.51%
12	$28,533,873	$4,304,182	$2,225,772	$2,078,410	0	$2,078,410		7.55%
13	$29,608,401	$4,390,266	$2,225,772	$2,164,494	0	$2,164,494		7.59%
14	$30,744,838	$4,478,071	$2,225,772	$2,252,299	0	$2,252,299		7.61%
15	$31,946,752	$4,567,633	$2,225,772	$2,341,861	0	$2,341,861		7.62%
16	$33,217,916	$4,658,985	$2,225,772	$2,433,213	0	$2,433,213		7.62%
17	$34,562,318	$4,752,165	$2,225,772	$2,526,393	0	$2,526,393		7.61%
18	$35,984,179	$4,847,208	$2,225,772	$2,621,436	0	$2,621,436		7.58%
19	$37,487,962	$4,944,152	$2,225,772	$2,718,380	0	$2,718,380		7.55%
20	$39,078,387	$5,043,036	$2,225,772	$2,817,263	0	$2,817,263		7.52%
21	$40,760,445	$4,629,507	$2,225,772	$2,403,734	0	$2,403,734		6.15%
22	$42,539,417	$4,722,097	$2,225,772	$2,496,325	0	$2,496,325		6.12%
23	$44,420,885	$4,816,539	$2,225,772	$2,590,767	0	$2,590,767		6.09%
24	$46,410,755	$4,912,869	$2,225,772	$2,687,097	0	$2,687,097		6.05%
25	$48,515,274	$5,011,127	$2,225,772	$2,785,355	0	$2,785,355		6.00%
26	$51,300,629	$5,111,349	$0	$5,111,349	0	$5,111,349		10.54%
27	$51,300,629	$5,213,576	$0	$5,213,576	0	$5,213,576		10.16%
28	$51,300,629	$5,317,848	$0	$5,317,848	0	$5,317,848		10.37%
29	$51,300,629	$5,424,205	$0	$5,424,205	0	$5,424,205		10.57%
30	$51,300,629	$5,532,689	$0	$5,532,689	0	$5,532,689		10.78%
31	$51,300,629	$5,079,008	$0	$5,079,008	0	$5,079,008		9.90%
32	$51,300,629	$5,180,589	$0	$5,180,589	0	$5,180,589		10.10%
33	$51,300,629	$5,284,200	$0	$5,284,200	0	$5,284,200		10.30%
34	$51,300,629	$5,389,884	$0	$5,389,884	0	$5,389,884		10.51%
35	$51,300,629	$5,497,682	$0	$5,497,682	0	$5,497,682		10.72%
36	$51,300,629	$5,607,636	$0	$5,607,636	0	$5,607,636		10.93%
37	$51,300,629	$5,719,788	$0	$5,719,788	0	$5,719,788		11.15%
38	$51,300,629	$5,834,184	$0	$5,834,184	0	$5,834,184		11.37%
39	$51,300,629	$5,950,868	$0	$5,950,868	0	$5,950,868		11.60%
40	$51,300,629	$6,069,885	$0	$6,069,885	$14,142,052	$20,211,938		11.83%

Source: Waronzof

Equity returns at ten years and twenty years are slightly higher, but do not exceed 11%.

Our benchmark for the suitability of these property and equity returns is the NCREIF Index, a 30 + year index of the performance of institutional real estate investment. In their 1st Quarter 2013 Property Performance Monitor, RREEF provides the following summary of NCREIF performance:

Returns by Property Type and Region

	Annual Returns								Standard Deviation	
		1 Year		3 Years	5 years	10 Years	20 Years	Since Inception[2]	20 Years	Since Inception[2]
Property Type	**Total**	**Income**	**Appr.**							
Apartment	11.0%	5.4%	5.4%	15.7%	3.3%	8.3%	9.9%	10.6%	9.0%	8.1%
Industrial	10.5%	6.2%	4.1%	12.2%	1.7%	7.8%	9.2%	9.3%	8.6%	7.9%
Office	9.0%	5.6%	3.3%	12.0%	0.9%	7.9%	8.5%	8.3%	9.8%	10.2%
Retail	12.6%	6.1%	6.2%	13.6%	4.5%	10.6%	9.3%	9.6%	8.1%	6.9%
Total Index	**10.5%**	**5.8%**	**4.5%**	**13.3%**	**2.3%**	**8.5%**	**8.9%**	**9.1%**	**8.6%**	**8.1%**

		1 Year		3 Years	5 years	10 Years	20 Years	Since Inception[2]	20 Years	Since Inception[2]
Region	**Total**	**Income**	**Appr.**							
East	9.0%	5.5%	3.4%	13.3%	1.9%	8.8%	9.4%	10.3%	9.2%	9.9%
Midwest	9.7%	6.4%	3.1%	11.3%	2.5%	6.9%	7.5%	7.9%	6.8%	6.2%
South	11.4%	6.2%	5.0%	12.8%	3.2%	8.2%	8.5%	8.1%	7.6%	7.1%
West	11.7%	5.6%	5.8%	14.2%	2.3%	9.0%	9.6%	9.5%	9.5%	8.9%
Total Index	**10.5%**	**5.8%**	**4.5%**	**13.3%**	**2.3%**	**8.5%**	**8.9%**	**9.1%**	**8.6%**	**8.1%**

[2] Index returns start in 1978, equivalent to a 35 year calculation.
Source: NCREIF Property Index.
As of March 31, 2013.

Source: RREEF Property Performance Monitor, 1st Quarter 2013

We see in the above table the ten, twenty and "since inception" level returns in the 8.5% to 9.1% range. We note, as well, the one year income returns, with a national average of 5.8%. This compares favorably with our earlier identification of a market rate of return – based on cap rates – of from 7% to 7.5%. Our selection would impute an "Alaska investment" premium of 120 to 170 basis points (comfortably in that 100 to 200 basis point range we discussed).

From this review of total return, we see that our rent selection of 7.315%, based upon a band of investment method of estimating the market rate of return results in total property-level returns that in within a reasonable range – 7.3% to 8.4%, and that our examination of equity-level returns, in the range of 10% to 11% is also suitable and competitive, particularly for a long-term lease in a government agency occupied building.

We conclude to a market rate of return at 7.315% based on the foregoing. The resulting indication of market rent is then $3,461,695 per year, on an escalating rent basis, as shown below:

Indication of Market Rent (NNN Basis)

Project Cost, Market Based:	$48,515,685
Market Rate of Return:	7.315%
Indicated Market Rent	$3,461,695

Indication of Market Rent (Modified NNN Basis)

In the lease terms under negotiation, the landlord has specific obligations that are specified for certain service and maintenance obligations related to the building. In the dialogue between landlord and tenant, this structure of expense obligation was referred to as a "modified triple net lease".

The provisions from the lease are:

a. ***LESSOR'S RESPONSIBILITY AND COSTS****:*

1. *The installation and maintenance of all structural components, core components, roof membrane/surface, and building systems that are incorporated into the Premises, including but not limited to: HVAC, elevators, plumbing, electrical, and fire suppression systems.*

2. *Providing connections to city water and sewer, electric service, and other public utility service to the Premises.*

3. *Parking lot repair, striping, work required to maintain conformance with ADA or other accessibility issues.*

4. *Any/all work required to maintain conformance with ADA or other accessibility issues.*
5. *Extraordinary maintenance – replacing worn carpeting, painting interior walls, replacing damaged casework, every 10 years, or sooner if reasonably required.*

6. *Exterior light fixture repair/replacement.*

7. *Interior light fixture repair/replacement.*

8. *Plumbing fixture repair/replacement.*

9. *Elevator inspection/repair/replacement.*

10. *HVAC inspection/maintenance/repair/replacement.*

11. *Fire suppression system inspection/maintenance/replacement.*

12. *The payment of any/all pending or levied assessments.*

13. Other services or maintenance as may be agreed by the parties.

Waronzof has analyzed these costs, and has reviewed a budget prepared by Pfeffer Development for these costs, and has concluded that the annual costs associated with providing these services are an estimated $152,241 per year, as shown below:

Lease Section	Item	Cost	Frequency	Annual Cost
Sec 4.a.3	Parking Lot Striping	$1,000	Annual	$1,000
Sec 4.a.4	ADA Signage; Future Liability	FV=$30000	Ann + One Time	$2,740
Sec 4.a.5	Extraordinary Maintenance	FV=$943,135	Reserve in 10 Yrs	$86,133
4.a.6	Exterior Lights	$1,000	Annual	$1,000
4.a.7	Interior Lights	$1,500	Annual	$1,500
4.a.8	Plumbing fixtures	$1,000	Annual	$1,000
4.a.9	Elevator	$20,740	Annual	$20,740
4.a.10	HVAC	$26,000	Annual	$26,000
4.a.11	Fire Suppression	$3,500	Annual	$3,500
Sec 4.a.5	Outdoor Area Major Maintenance	$8,628	Annual	$8,628
				$152,241

Source: Waronzof; Pfeffer Development

Thus, our conclusion of modified triple net (escalating) rent is then:

Project Cost, Market Based:	$48,515,685
Market Rate of Return:	7.315%
Indicated Market Rent	$3,461,695
Add: Landlord Service Obligations:	$152,241
Modified Triple Net Rent:	$3,613,936

Indication of Market Rent – Level Rent Premise

Use present value analysis, we can convert the expected stream of escalating rent (rising at 2% per year) into a level stream of rent payments of equivalent financial value. This is a two step process: (1) first forecasting the escalating rent stream and determining the net present value of that stream of rent, and (2) determining the level annual amount necessary to create that same present value. In this form of analysis, the discount rate is the same for determining the net present value as well as the level annual installment.

The following is a schedule of escalating and level annual equivalent rent:

Level Annual Equivalent Modified NNN Market Rent

Assumed Escalation Rate		**2.00%**
Assumed Discount Rate		8.00%
LAE NPV==>	$26,223,306	$26,223,306
Yr	**Initial Rent**	**LAE Rent**
1	$3,613,936	$3,908,046
2	$3,686,215	$3,908,046
3	$3,759,939	$3,908,046
4	$3,835,138	$3,908,046
5	$3,911,841	$3,908,046
6	$3,990,077	$3,908,046
7	$4,069,879	$3,908,046
8	$4,151,277	$3,908,046
9	$4,234,302	$3,908,046
10	$4,318,988	$3,908,046

Source: Waronzof

In the above table, we see the escalating market rent estimate, beginning at $3,613,936 per year, escalating for each of the ten years of the lease at 2% per year; the net present value of this rent stream is $26,223,306. The installment to amortize the net present value of $26,223,306 (also at an 8% rate) is $3,908,046 per year. These rent streams are a financial equivalent.

Thus, we conclude that the level market rent estimate for the ten year term of the lease is $3,908,046 per year for each of the ten years of the lease extension term.

Rent Based Upon Direct Comparison

We noted in our valuation methodology discussion that the direct comparison analysis, in which we compare the indications of rent for generic office buildings and apply adjustments intended to simulate the special features and requirements of the LIO occupancy, is the less reliable indication of market rent for the special purpose Subject property, and is included in order to provide some additional evidence of rental value. As important as the additional evidence and insight we can gain from this analysis is opportunity to relate the rent indications of the market rate of return analysis to other rents in the local marketplace. Because the Subject property should be valued as a special purpose property, however, there is an essential disconnect between the two analyses. As a special purpose property, the specialized user (LIO) needs features and performance capabilities in the property that a non-specialized user does not. Generic buildings do not contain those specialized features, and those specialized features only provide utility, worth and value to the specialized user. Consequently, this direct comparison analysis is really a hybrid analysis, because it begins with indications of rent from generic buildings, and then adjusts these indications to simulate the special features of the Subject property.

Our analysis includes six rental comparables, including four generic office buildings (including the aforementioned 909 9th Avenue building, and two government buildings, the Glen Olds Hall addition at Alaska Pacific University (leased to the USGS) and the aforementioned Camp Denali Readiness Center.

Application of Adjustments

The reader will note that our adjustments to the comparables are applied in three groups: (i) adjustments for differences in common real estate characteristics such as location, time elapsed since the transaction was completed, age and condition of the property, etc.; (ii) adjustments for the special features of the Subject property, specifically tenant improvements and additional specialty features; and (iii) adjustment for the external costs of the Subject property project, including the parking structure, demolition costs of the existing building(s) and temporary relocation costs. Separation of these groups of attributes allows us to better understand how and why the adjustments are applied and more clearly illustrates the rental value impact of the adjustment amounts.

Located on the following page is our rental comparables summary and adjustment grid.

Comparable	1	2	3	4	5	6
Building Name	Conoco Phillips	909 9th Ave	JL Tower	Doyon Ltd. Bldg	Glenn Olds Hall Addition	Camp Denali Readiness Center
Location	700 G Street	909 9th Ave	Midtown	South Anchorage	APU Campus	JBER
Lessor	Conoco Phillips	Pfeffer Dev.	JL Properties	CIRI	APU	AIDEA
Lessee	Asking	NANA Regional Corp.	Chugach Alaska Corp.	Doyon Corporation	GSA/USGS	Alaska National Guard
Leased Area	24,000 RA	52,589 GBA	82,719 RA	37,750 RA	19,650 RA	27,770 GBA
Lease Date	2011	2012	2012	2011	2012	2014
Lease Rate	$30.60		$36.24	$36.60	$39.96	$50.25
Lease Term	5 to 7 years	12 Years	5-7 years	8-10 years	11 Yrs +	20 Years
Lease Structure	FSG	NNN	FSG	FSG	FSG	NNN
Escalation	CPI	CPI ++	Fixed $.10/sf increases	CPI	1.5% per year	Level Rent
Age & Condition	31 yrs/V. Good	Fully renovated	New	New	New	New
Type of Parking	Surface	Surface	Surface	Surface	Surface	Surface
Tenant Improvement Allowance	$15/sf	$92/sf	$20/sf	$35/sf	None- fully finished.	None- fully finished.
Comments	22 Story Class A office building	Fully renovated six story office building; single tenant BTS. Contract rent is confidential.	Renewal of anchor tenant lease.	New suburban office building. Single tenant occupancy.	New suburban office building as addition to existing government office. Single tenant occupancy.	New suburban office building as addition to existing government facility. Two tenant occupancy for USCG & ANG.
Adjustments						
Location	0%	10%	20%	20%	20%	20%
Time	3%	0%	0%	3%	0%	0%
Age & Condition	20%	0%	5%	0%	0%	0%
Other	0%	10%	0%	0%	0%	-10%
Net to Gross Adjust	-10%	0%	-10%	-5%	-5%	0%
Operating Expense	($7.50)	$2.50	($7.50)	($6.50)	($6.50)	($4.50)
Subtotal Adjusted	$27.08		$34.18	$36.69	$39.45	$50.78
Rent Adjustment for Subject Specialties	$1.80	$1.80	$1.80	$1.80	$1.80	$0.00
Rent Adjustment for Subject TI Cost	$6.58	$2.05	$5.85	$6.22	$5.85	$0.00
Subtotal Adjusted	$35.46		$41.83	$44.71	$47.11	$50.78
Rent Adjustment for Other Provisions						
Structured Parking	$7.23	$7.23	$7.23	$7.23	$7.23	$7.23
Demolition & Temporary Relocation	$5.34	$5.34	$5.34	$5.34	$5.34	$5.34
Indicated Equivalent Rent	**$48.03**		**$54.40**	**$57.28**	**$59.68**	**$63.35**

Source: Waronzof, Reliant Advisors

Application of Adjustments

As evident above, we have adjusted the comparables for a variety of differences between themselves and the Subject property. The following is a brief discussion of the basis for our adjustments.

Location – We have made adjustments for location based solely on the difference in location as it relates to the costs of land at each of the comparables. Our Subject property, located in downtown Anchorage, has high land costs. We have made percentage adjustments to rent to simulate this difference. Comparable 1, located downtown near the Subject, receives no adjustment (because it's location is similar) while

Comparables 4-6 receive 20% upward adjustments because their suburban locations permit much lower overall land costs.

Time – We have made very modest adjustments for time, applying a 3% adjustment to those rent comparables reported in 2011, and applying no adjustment to 2012 or later transactions.

Age & Condition – Our Subject property will be effectively new upon completion, and we have applied modest adjustments, most notably a 20% age and condition adjustment to the Conoco Phillips building, now some 31 years old.

Other Adjustments & Gross to Rentable Adjustment – Our analysis takes into account, where necessary, other adjustments, such as for Comparable 2, where the very substantial renovation project did not result in brand new ground floor construction or a completely new curtainwall system, or for Comparable 6, which is a level lease over the twenty year term of the lease (with resulting reversion of the property to tenant at lease end). Our gross to net adjustment compensates for the differences among leases – whether the leased area is based on rentable area or gross building area. Our analysis assumes an average 10% gross to rentable difference.

Operating Expense – The adjustment is based on the premise that the average Class A office building in Anchorage has a $10/sf/year operating expense cost and that this cost is included in a full service gross lease. Our Subject property, with its modified triple net lease, will have estimated landlord costs of $2.37/sf/year, which we have rounded to $2.50/sf/year. Suburban buildings are assumed to have a lower operating cost, primarily because of the lower property tax expense associated with lower land and building costs (in suburban settings).

Adjustment for Specialties and Tenant Improvements – We adjust all of our comparables except #6 for the costs of special features of the Subject. This includes hearing room improvements, freight elevator, custom casework, emergency generator, the outdoor area and CATV wiring. These items have a scheduled cost of $1.194 million, which translates to a rent adjustment of $1.80/sf/year. Our tenant improvements adjustment is based on the premise that TI costs at the Subject property will be $120/sf, and that new, generic office building (first generation) TI costs are $60/sf. Our adjustment is based upon the difference between the imputed cost/worth of TI's at the comparable building versus the Subject property.[21]

Adjustment for Other Provisions; Structured Parking, Demolition and Temporary Relocation – Our adjustment is based on the cost of these attributes times the 7.315% rate of return. Parking structure adjustment is based upon the depreciated cost of the garage only, not including land cost. Demolition and temporary relocation costs are adjusted at cost,

[21] For example, Comparable #1 reports a $15/sf TI allowance. Our adjustment for this comparable assumes that, with a $15/sf allowance, in place TI's will have a $30/sf value upon completion. Subject cost is $120/sf. The difference is $90/sf. $90/sf X our market rate of return of 7.315% is $6.58/sf/year.

times the market rate of return. None of the comparables provide structured parking or include the demolition cost and temporary relocation costs of the Subject, so the adjustments are common across all comparables.

Impact of the Adjustments

- The average contract rent of our six comparables is $36.62/sf/year.

- The average adjusted rent for typical characteristics (location, time, age & conditions, etc.,) is $36.99, a net upwards adjustment of 1.02%. The dollar amount of the change is +$.37/sf/year.

- The average adjusted rent following adjustments for special features and tenant improvements is $42.92/sf/year, a net upwards adjustment of 16.02%. The dollar amount of the change is +$6.02/sf/year.

- The average adjusted rent following adjustments for structured parking, demolition and temporary relocation is $55.49/sf/year, a net upwards adjustment of 29%. The dollar amount of the adjustment is $12.57/sf/year.

Following these adjustments, the indications of rent for the Subject property range from a low of $48.02/sf/year to a high of $63.35/sf/year. The average of the six indications is $55.49/sf/year. Rent for the Subject property at $55.49/sf/year would be $3,554,024. This can be compared with our conclusion of rental value (escalating rent) via the market rate of return and project cost method of $3,613,936, a variance of 1.66%.

Conclusion of Rental Value via Direct Comparison

We've described this analysis as a "hybrid" as it attempts to estimate rent for a special purpose property by starting with rents from generic buildings and then making adjustments for the differences in property attributes between Subject and comparable. Key to this analysis is the idea that, because the LIO is a specialized user, and the Subject property has special features to meet these special needs, all of the characteristics of the Subject property have worth and value to the specialized user.

The benefit of this direct comparison analysis is that it builds a bridge of understanding between generic office rents observed in the marketplace and the rents that result from the need for these special features and attributes. This is the essence of a special purpose property appraisal and the resulting estimate a rental value – that generic buildings in the local marketplace cannot meet the needs of the user, and the user must then bear the cost of those special features and attributes – either in the form of the cost of construction or purchase, or in the form of rent.

We conclude to a rental value for the Subject property of $3,554,000 per year, assuming an escalating lease structure, based on this direct comparison analysis, as of June 1, 2014.

Reconciliation and Estimate of Rental Value

Our analysis has resulted in the following indications of rental value, as of June 1, 2014:

Project Cost & Market Rate of Return:	$3,613,936 per year
Direct Comparison:	$3,554,000 per year

Our analysis of rental value is grounded in the conclusion that the Subject property is a special purpose property and must be valued as such. Accordingly, we have completed an analysis that reflects the worth and utility of the specialized property to the specialized user – the Legislative Information Office and its administrator, the Legislative Affairs Agency. When all is said and done, the inherent presumption of this and any other special purpose property market value or rental value estimate is that the user needs these special features and capabilities, and that the costs of those features and capabilities is fair and appropriate.

Our analysis has gone to substantial detail to evaluate the costs of the developer and of other relevant projects in the local marketplace to evaluate the appropriateness of project costs and to consider not just the developer's proposed costs, but also the costs of the project as we believe the marketplace would view them – most specifically, the hypothetical investor who would be developing and leasing the specialized property to the user. We've presented what we believe is rather compelling information about the range of market rate of return that our hypothetical investor would apply to this investment; the range of rates is narrow and there is much consistence across these indications of market rate of return. Therefore, our Project Cost & Market Rate of Return analysis indicates a market rent that we believe is reliable and credible and which fully reflects the worth of the features and attributes of the renovated and expanded office building.

Our direct comparison analysis allows the reader (and the analyst) to understand both the range of rents for generic buildings in the Anchorage marketplace as well as the impact upon rent of the special features and attributes of the building. We've characterized this as a hybrid indication of value, beginning with rent indications of generic buildings and moving towards the special purpose building standard through application of adjustments. The development and leasing of the 909 Building and the Camp Denali Readiness Center provide important and relevant indications of project cost and rental value, and they have influenced our conclusions of market rent.

In reaching our conclusion of rental value, while acknowledging the indications of our direct comparison analysis, we rely upon the indications of our Project Cost & Market Rate of Return analysis, and we conclude to a rental value, as of June 1, 2014, of:

$3,614,000 per year – Year One

Escalating Rent for a Ten Year Term

and

$3,908,000 per year

Level Rent for a Ten Year Term

Application of AS 36.30.083

The landlord's proposed rent under the terms and conditions of the lease extension agreement now under negotiation is $247,756 per month plus Waronzof's estimate of the landlord's service obligations under the lease agreement, or $12,687 per month, for a total of $260,443 per month, or $3,125,316 per year, with rent escalations of 2% per year over the ten year term of the lease extension. We find that for an escalating lease, the proposed contract rent of $260,443 per month represents 86.48% of our Market Rent conclusion of $301,167 per month ($3,614,000 annually).

Landlord has also agreed to a level annual equivalent rent of $3,379,658 per year, or $281,638 per month, for each of the ten years of the lease extension, inclusive of the service obligation cost component, under an alternative rent escalation structure. Our Market Rent conclusion, under a level rent structure for ten years, is $3,908,000 per year, or $325,667 per month. We find that for a level lease, the proposed contract rent of $281,638 per month also represents 86.48% of our Market Rent conclusion.

Accordingly, we are able to conclude that the proposed contract rent for the lease extension agreement now under negotiation is, in fact, "at least 10 percent below the existing market rent value" pursuant to AS 36.30.083, based upon this Rental Value appraisal analysis and our understanding of the proposed terms and conditions of the lease extension agreement now under negotiation.

PURCHASE OPTION ANALYSIS

This purchase option analysis is intended to provide our client, AHFC, relevant information about the manner in which a purchase option price can or should be evaluated and we conclude to a recommendation for an option price over the period of the ten year lease extension.

While a purchase option has been discussed between landlord and tenant (at tenant's request), no specific purchase option language has been prepared, and our analysis is not based upon any specific example. This is a financial analysis (only) and the specific terms and conditions of the option need to be established. Once that is complete, this analysis can be revisited to determine what changes, if any, are necessary, to conform the financial analysis with the (then) purchase option language.

We can note the following assumptions that are inherent in our financial analysis:

- The tenant has the right to exercise the option once a year annually, at the end of the lease year, through Year 10.
- The payment is made in cash at closing.
- The notice period for exercise of the option is reasonable.

The Analysis Process

As in the determination of our market rent estimate, the essence of this exercise is to determine an option price that is fair to both parties. An option price that is fair does not unfairly injure or diminish the expected return of the landlord, nor impose costs that would not be borne under the lease agreement upon the tenant. In this specific instance, wherein the tenant is a government agency, with the capacity to finance any purchase with tax-exempt debt, the tenant would most likely, through the entire term of the occupancy, have a financial capability to benefit from purchase of the property, simply because the tenant can change (lower) the effective cost of the investment as it moves from a private, taxable structure to a public, tax-exempt structure. This analysis *does not* consider that additional benefit available (only) to the tenant. The benefit does not inure to the landlord.

What is fair to landlord and tenant is to have a realistic understanding of the possible outcomes for the landlord with respect to extension or expiration of the lease agreement; this is the basis for this analysis of purchase option price. To a lesser extent, the outcomes for the tenant might also be considered, but, because of the special purpose nature of the building and occupancy, that analysis becomes "circular" and problematic.[22]

[22] Having concluded that the occupancy is specialized and the building special purpose, we have to assume that some event or condition "breaks the connection" between the specialized use and the cost of a building to occupy.

Thus our analysis focuses on the landlord's perspective, and their likelihood of investment return and outcome from their ownership of the building subject to the lease as agreed-upon. Somewhat like our market rent analysis; our recommendations are driven by our assessment of the suitability of the returns that result from the investment, should the purchase option be exercised. Our analysis begins with a reminder of the returns expected without option exercise.

We should also emphasize that this purchase option analysis is not based upon market rent conclusions provided earlier, but is based upon the actual terms of the lease as proposed by the developer, and generally agreed upon by the LAA on behalf of the Legislative Council.

The following are the steps in our analysis:

- Forecast cash flows to the landlord/developer under the actual lease terms.
- Test IRR and equity returns available based upon a 15 year investment holding period.
- Determine the relevant analysis scenarios.
- Determine the IRR for a 15 year investment under each scenario.
- Determine the suitable IRR/discount rate for pricing the purchase option.
- Determine the option price for each year of purchase under each scenario based on the IRR/discount rate selection.
- Probability weight the scenarios selected to indicate an expected value/weighted average option price by year.
- Having determined an option price by year as an expected value, solve for the resulting IRR/discount rate to test for reasonableness.
- Evaluate the landlord's costs associated with the forced sale of the property under the purchase option, including tax costs and investment replacement costs.
- Add lump sum adjustment for investment replacement costs to option price; recalculate IRR/discount rate based on adjusted option costs.

We note that while all of the above steps are included in our analysis, for brevity, we do not include a description or summary of all the steps in this narrative.

Scenarios/Outcomes

After evaluation, we have concluded that there are three principle outcomes that are likely at the end of the initial lease extension: (1) the option to extend is exercised, and rent continues on the prior pattern based upon a 2% annual increase, effectively replicating the first ten

years of this agreement; (2) the LAA vacates the building and the building is leased to a replacement government tenant, imposing lost rent and costs on the landlord but retaining some of the rental value of the specialized improvements of the building; and (3) the LAA vacates the building and the building is leased to generic office building tenants effectively reducing the value of the specialized improvements, for rental value purposes, to nil.

There are a vast number of possible permutations around these three scenarios; our analysis only scratches the surface, and may be regarded as preliminary as a consequence.

The reader should note that our analysis also takes a single perspective around the "base" scenario, that of a fifteen year hold of the investment, and the assumed sale of the property to a third-party investor at the end of the 15th year of the investment. We have selected this basic approach (common to all three scenarios) because it allows the assumed sale of the property after the lease extension or expiration and turnover is completed, and the building (regardless of scenario) is back in stabilized operation following that event at the end of year 10.

Option Price with Escalating Rents & with Level Rent

In the same manner in which we estimated market rent on both an escalating and a level rent basis, we have estimated the purchase option price in the same order. We have done this primarily because the context for estimating level market rent was to determine an amount that is the financial equivalent of an escalating rent pattern. The same is true with the purchase option structure. The reader will note that the purchase option amount we conclude to is lower for the level rent structure than when escalating rent is received. This is because, from an investment standpoint, more of the total return is being received earlier in the investment (in the form of a higher level rent payment in early years); the option price is correspondingly (though not dollar for dollar) lower. We do not replicate all of the calculations for our level rent analysis in the interest of brevity; all of the steps in the process are the same, but the amount of rent is different.[23]

[23] The level rent analysis does cause us to manage property value change over the ten years of the lease somewhat differently, because we do not want to rely simply on a capitalization of (level) rent as the basis of value and value change. Our analysis relies on the escalating rent analysis for total value change, and then applies incremental change annually during the term of the purchase option.

Recommendation Regarding a "Purchase Option Call"

The presence of the purchase option may have the unintended consequence of adversely affecting the market value of the Subject property under the terms of the lease extension. This is because, as a special purpose property, the approach to the purchase option is based upon "yield maintenance" for the developer landlord (i.e. an option price structure that does not materially impair or enhance the developer landlord's rate of return. In fairness, however, the option should not impair the price that another investor might pay to step into the ownership "shoes" of the landlord during the term of the lease extension, while the purchase option may be exercised.

Accordingly, we recommend that the parties consider the inclusion of a purchase option call provision, in which the landlord has the right to "buy back" the purchase option right from the tenant, in return for a lump sum payment by landlord to tenant. Depending on future market conditions, financial rates of return, as well as a hypothetical buyer's assessment of (next) lease extension probability, we can certainly anticipate that there may be buyers in the future willing and able to purchase the property based upon the strength of the lease with the LAA, and based upon the assumption that the property, as occupied, is deserving of a lower cap and/or discount rate than we believe is appropriate today. A purchase option call provision would allow the landlord to purchase the tenant's rights and extinguish them, allowing a sale of the property unfettered by the presence of the purchase option. Thus, if future market conditions are such that a sale of the property to a third party is materially more attractive to the landlord, it can extinguish the purchase option and sell the property for a price above the purchase option price. With an accompanying notice provision, tenant would have proper, timely notice of landlord's intent, and could take steps to exercise its purchase option as scheduled.

While we have not completed a thorough analysis of the likely amount of the purchase option call, we suspect that it should be in the vicinity of 5% of the purchase option amount.

While somewhat unusual, the purchase option call provision has the financial affect of allowing the purchase option pricing structure to remain consistent with a yield maintenance approach, which is common for long term leases of special purpose properties, while not unfairly impairing the ability of the developer to sell the property to a third party should future market conditions create a compelling justification for sale.

Purchase Option Calculations – Escalating Rent Premise

The following is the cash flow forecast and option pricing for the first scenario – in which the tenant (LAA) is presumed to exercise the lease option and rent continues to escalate at 2%. Landlord is presumed to sell the property in the 15th year, based upon a 7.5% capitalization rate, and 3% costs of sale.

BASIC CASH FLOWS - TENANT PERFORMS AND RENEWS

	Year	Cash Flows	Reversion	Cash Flow & Reversion
	0	-$37,016,021	0	-$37,016,021
	1	$2,973,099	0	$2,973,099
	2	$3,032,561	0	$3,032,561
	3	$3,093,212	0	$3,093,212
	4	$3,155,076	0	$3,155,076
	5	$3,218,178	0	$3,218,178
	6	$3,282,541	0	$3,282,541
	7	$3,348,192	0	$3,348,192
	8	$3,415,156	0	$3,415,156
	9	$3,483,459	0	$3,483,459
	10	$3,553,128	0	$3,553,128
	11	$3,624,191	0	$3,624,191
	12	$3,696,674	0	$3,696,674
	13	$3,770,608	0	$3,770,608
	14	$3,846,020	0	$3,846,020
	15	$3,922,940	$50,736,697	$54,659,637
		INVESTMENT IRR-100bps		9.101%
		NPV OF CASH FLOWS; DRR =IRR		$40,347,366
Purchase at End of Year	1	NPV		***$41,046,466***
	2	NPV		***$41,749,731***
	3	NPV		***$42,456,353***
	4	NPV		***$43,165,424***
	5	NPV		***$43,875,928***
	6	NPV		***$44,586,736***
	7	NPV		***$45,296,586***
	8	NPV		***$46,004,080***
	9	NPV		***$46,707,662***
	10	NPV		***$47,405,611***

Source: Waronzof

The reader should note that the internal rate of return for the basic scenario – at the property or project level – is actually 10.101%. The table above reflects a 100 basis point reduction in the cap rate in order to incorporate a modest improvement in the investment performance (the lower IRR translates into a slightly higher option price), as an incentive to sell the property. Following a very usual and customary investment

perspective, if the sale of property does not improve the return, the property is not sold – it continues to be held for rental income and future sale. Accordingly, our analysis includes this premium as a usual and customary premium that incents the sale of the property. In the above table, the first year option price is forecast at $41.046 million. Were the 10.101 discount rate used, the option price would (of course) be approximately equal to the landlord's actual cost, at $37.782 million. This is an 8.6% premium over cost in the first year of the option, and the premium shrinks to about 4% by year ten.

ALTERNATIVE CASH FLOWS - A - REPLACEMENT GOVT TENANT

		Cash Flows	Reversion	Cash Flow & Reversion
	0	-$37,016,021	$0	-$37,016,021
	1	$2,973,099	$0	$2,973,099
	2	$3,032,561	$0	$3,032,561
	3	$3,093,212	$0	$3,093,212
	4	$3,155,076	$0	$3,155,076
	5	$3,218,178	$0	$3,218,178
	6	$3,282,541	$0	$3,282,541
	7	$3,348,192	$0	$3,348,192
	8	$3,415,156	$0	$3,415,156
	9	$3,483,459	$0	$3,483,459
	10	$3,553,128	$0	$3,553,128
	11	-$3,842,375	$0	-$3,842,375
	12	$2,842,502	$0	$2,842,502
	13	$2,927,778	$0	$2,927,778
	14	$3,015,611	$0	$3,015,611
	15	$3,106,079	$40,171,957	$43,278,037
		INVESTMENT IRR-100bps		6.931%
		NPV OF CASH FLOWS; DRR =IRR		$40,366,009
PURCHASE AT	1	NPV		***$40,190,757***
	2	NPV		***$39,943,895***
	3	NPV		***$39,619,273***
	4	NPV		***$39,210,285***
	5	NPV		***$38,709,849***
	6	NPV		***$38,110,363***
	7	NPV		***$37,403,674***
	8	NPV		***$36,581,040***
	9	NPV		***$35,633,084***
	10	NPV		***$34,549,754***

Source: Waronzof

In the second scenario, in which we assume a government tenant exercises a new lease at 80% of the last year's contract rent, and there is a full year of rent loss and administrative costs, the reader should note the substantial change in the Year 15 assumed sale of the property, from $50.7 million to $40.2 million, based upon the lower net operating income from the replacement tenant.

ALTERNATIVE CASH FLOW - B - GENERIC TENANTS & LEASE UP

		Cash Flows	Reversion	Cash Flow & Reversion
	0	-$37,016,021	$0	-$37,016,021
	1	$2,973,099	$0	$2,973,099
	2	$3,032,561	$0	$3,032,561
	3	$3,093,212	$0	$3,093,212
	4	$3,155,076	$0	$3,155,076
	5	$3,218,178	$0	$3,218,178
	6	$3,282,541	$0	$3,282,541
	7	$3,348,192	$0	$3,348,192
	8	$3,415,156	$0	$3,415,156
	9	$3,483,459	$0	$3,483,459
	10	$3,553,128	$0	$3,553,128
	11	-$1,583,112	$0	-$1,583,112
	12	-$1,044,215	$0	-$1,044,215
	13	$2,027,556	$0	$2,027,556
	14	$2,088,383	$0	$2,088,383
	15	$2,151,034	$27,820,046	$29,971,080
		INVESTMENT IRR-100bps		4.916%
		NPV OF CASH FLOWS; DRR =IRR		$40,266,097
PURCHASE AT	1	NPV		***$39,272,581***
	2	NPV		***$38,170,759***
	3	NPV		***$36,954,119***
	4	NPV		***$35,615,800***
	5	NPV		***$34,148,585***
	6	NPV		***$32,544,875***
	7	NPV		***$30,796,671***
	8	NPV		***$28,895,557***
	9	NPV		***$26,832,677***
	10	NPV		***$24,598,711***

Source: Waronzof

In the third scenario, in which the building cannot locate a replacement government tenant and reverts to generic office occupancy, we see the effects of the loss of net operating income and the costs of the lost rent associated with tenant turnover. The IRR is now only 5.92% (well below norms) and the resulting Year 15 sales price is $27.8 million.

The following table compares the predicted purchase option price – ***if the outcome under each scenario was a certainty***.

		BASIC CASH FLOWS - TENANT PERFORMS AND RENEWS	ALTERNATIVE CASH FLOWS - A - REPLACEMENT GOVT TENANT	ALTERNATIVE CASH FLOW - B - GENERIC TENANTS & LEASE UP
Purchase at EO Yr:	1	$41,046,466	$40,190,757	$39,272,581
	2	$41,749,731	$39,943,895	$38,170,759
	3	$42,456,353	$39,619,273	$36,954,119
	4	$43,165,424	$39,210,285	$35,615,800
	5	$43,875,928	$38,709,849	$34,148,585
	6	$44,586,736	$38,110,363	$32,544,875
	7	$45,296,586	$37,403,674	$30,796,671
	8	$46,004,080	$36,581,040	$28,895,557
	9	$46,707,662	$35,633,084	$26,832,677
	10	$47,405,611	$34,549,754	$24,598,711

Source: Waronzof

In the table above, we see the differences in the option pricing under each scenario, and the reader should note how similar the amounts are in the early years of the option period. This is because the rent paid by the tenant is regarded as a certainty, but as we approach year ten, and the very different possible outcomes, we see the option pricing diverge, as either the good news (of tenant retention) or the bad news (of loss of tenant and exposure to releasing and turnover costs) gets closer and closer.

In the next step in the analysis, we weight each scenario by the likelihood of the outcome. The probability of occurrence estimates are Waronzof's judgments.

Probability of Occurance		70%	15%	15%	
		BASIC CASH FLOWS - TENANT PERFORMS AND RENEWS	ALTERNATIVE CASH FLOWS - A - REPLACEMENT GOVT TENANT	ALTERNATIVE CASH FLOW - B - GENERIC TENANTS & LEASE UP	Weighted Average
Purchase at EO Yr:	1	$28,732,526	$6,028,613	$5,890,887	**$40,652,026**
	2	$29,224,812	$5,991,584	$5,725,614	**$40,942,010**
	3	$29,719,447	$5,942,891	$5,543,118	**$41,205,456**
	4	$30,215,796	$5,881,543	$5,342,370	**$41,439,709**
	5	$30,713,150	$5,806,477	$5,122,288	**$41,641,915**
	6	$31,210,715	$5,716,554	$4,881,731	**$41,809,001**
	7	$31,707,610	$5,610,551	$4,619,501	**$41,937,662**
	8	$32,202,856	$5,487,156	$4,334,334	**$42,024,345**
	9	$32,695,363	$5,344,963	$4,024,902	**$42,065,228**
	10	$33,183,928	$5,182,463	$3,689,807	**$42,056,198**

Source: Waronzof

We note that buyer/seller (and appraiser) judgments about tenant retention are usual and customary. Our assessment of a 70% probability of tenant retention is not unusual; studies have shown that without regard to specialized improvements or other retention incentives, two-

thirds of the time, at first renewal, a tenant will renew a lease. Where there are specialized improvements that raise the cost of relocation, the retention percentage rises. In this specific instance, we also have the history of being located at this site in downtown Anchorage, as well as the history of the inability to relocate. While these make an argument for an even higher retention rate assessment, we believe a 70% probability assessment is sound.

The next table illustrates the pattern of receipt of net operating income from the property and the corresponding weighted average (also called an expected value) purchase option price. From this patter of cash flows we can evaluate internal rate of return, as shown in the following table.

	NOI FROM RENTS	SALE AT EO YR 1	SALE AT EO YR 2	YR 3	YR 4	YR 5	YR 6	YR 7	YR 8	YR 9	YR 10
1	$2,973,099	$2,973,099	$2,973,099	$2,973,099	$2,973,099	$2,973,099	$2,973,099	$2,973,099	$2,973,099	$2,973,099	$2,973,099
2	$3,032,561		$3,032,561	$3,032,561	$3,032,561	$3,032,561	$3,032,561	$3,032,561	$3,032,561	$3,032,561	$3,032,561
3	$3,093,212			$3,093,212	$3,093,212	$3,093,212	$3,093,212	$3,093,212	$3,093,212	$3,093,212	$3,093,212
4	$3,155,076				$3,155,076	$3,155,076	$3,155,076	$3,155,076	$3,155,076	$3,155,076	$3,155,076
5	$3,218,178					$3,218,178	$3,218,178	$3,218,178	$3,218,178	$3,218,178	$3,218,178
6	$3,282,541						$3,282,541	$3,282,541	$3,282,541	$3,282,541	$3,282,541
7	$3,348,192							$3,348,192	$3,348,192	$3,348,192	$3,348,192
8	$3,415,156								$3,415,156	$3,415,156	$3,415,156
9	$3,483,459									$3,483,459	$3,483,459
10	$3,553,128										$3,553,128

	Option Payment									
1		$40,652,026								
2			$40,942,010							
3				$41,205,456						
4					$41,439,709					
5						$41,641,915				
6							$41,809,001			
7								$41,937,662		
8									$42,024,345	
9										$42,065,228
10										$42,056,198

Source: Waronzof

In the following table, we see that the property or project level IRR that results from receipt of rent and sale of the property under the proposed price; the IRR is high in the first two years, and then falls into the normal range for Years 2 through 10. The first two years are quite high because of our inclusion of that discount rate adjustment of 100 basis points discussed above.

0	-$37,016,021	-$37,016,021	-$37,016,021	-$37,016,021	-$37,016,021	-$37,016,021	-$37,016,021	-$37,016,021	-$37,016,021	-$37,016,021	-$37,016,021
1		$43,625,125	$2,973,099	$2,973,099	$2,973,099	$2,973,099	$2,973,099	$2,973,099	$2,973,099	$2,973,099	$2,973,099
2		$0	$43,974,571	$3,032,561	$3,032,561	$3,032,561	$3,032,561	$3,032,561	$3,032,561	$3,032,561	$3,032,561
3		$0	$0	$44,298,668	$3,093,212	$3,093,212	$3,093,212	$3,093,212	$3,093,212	$3,093,212	$3,093,212
4		$0	$0	$0	$44,594,785	$3,155,076	$3,155,076	$3,155,076	$3,155,076	$3,155,076	$3,155,076
5		$0	$0	$0	$0	$44,860,092	$3,218,178	$3,218,178	$3,218,178	$3,218,178	$3,218,178
6		$0	$0	$0	$0	$0	$45,091,542	$3,282,541	$3,282,541	$3,282,541	$3,282,541
7		$0	$0	$0	$0	$0	$0	$45,285,854	$3,348,192	$3,348,192	$3,348,192
8		$0	$0	$0	$0	$0	$0	$0	$45,439,501	$3,415,156	$3,415,156
9		$0	$0	$0	$0	$0	$0	$0	$0	$45,548,686	$3,483,459
10		$0	$0	$0	$0	$0	$0	$0	$0	$0	$45,609,326
IRR		**17.85%**	**13.08%**	**11.55%**	**10.80%**	**10.36%**	**10.07%**	**9.87%**	**9.73%**	**9.62%**	**9.54%**

Source: Waronzof

In the following table, we show the estimated amount of the differential in the net present value of capital gains tax paid (at the time of the sale of the property under the purchase option, versus paid at the assumed fifteen year sale of the property in our baseline assumption). This adjustment, along with the compensation for costs associated with completing due diligence on a replacement investment, represent what are reasonable compensatory payments (as part of the option price) to cover the cost imposed on the landlord for (what amounts to) a non-discretionary early sale of the property and termination of the investment. These lump sum adjustments are incorporated into the option price.

Net Tax Cost	($90,596)	($4,498)	$70,802	$134,356	$185,143	$222,061	$243,920	$249,439	$237,234	$205,815
DD Costs - Replacement	$406,520	$409,420	$412,055	$414,397	$416,419	$209,045	$209,688	$210,122	$210,326	$210,281
Total Lump Sum Adjustment	$315,924	$404,922	$482,856	$548,753	$601,562	$431,106	$453,608	$459,560	$447,560	$416,096
Brt FWd Option	$40,652,026	$40,942,010	$41,205,456	$41,439,709	$41,641,915	$41,809,001	$41,937,662	$42,024,345	$42,065,228	$42,056,198
Indicated Option Price	$40,967,951	$41,346,932	$41,688,312	$41,988,462	$42,243,477	$42,240,106	$42,391,270	$42,483,906	$42,512,788	$42,472,294
Rounded	$40,970,000	$41,350,000	$41,690,000	$41,990,000	$42,240,000	$42,240,000	$42,390,000	$42,480,000	$42,510,000	$42,470,000

Source: Waronzof

In the table below, we report the imputed capitalization rate and IRR from the operation of the property and the sale at the purchase option price.

0	-$37,016,021	-$37,016,021	-$37,016,021	-$37,016,021	-$37,016,021	-$37,016,021	-$37,016,021	-$37,016,021	-$37,016,021	-$37,016,021	-$37,016,021
1		$43,943,099	$2,973,099	$2,973,099	$2,973,099	$2,973,099	$2,973,099	$2,973,099	$2,973,099	$2,973,099	$2,973,099
2			$44,382,561	$3,032,561	$3,032,561	$3,032,561	$3,032,561	$3,032,561	$3,032,561	$3,032,561	$3,032,561
3				$44,783,212	$3,093,212	$3,093,212	$3,093,212	$3,093,212	$3,093,212	$3,093,212	$3,093,212
4					$45,145,076	$3,155,076	$3,155,076	$3,155,076	$3,155,076	$3,155,076	$3,155,076
5						$45,458,178	$3,218,178	$3,218,178	$3,218,178	$3,218,178	$3,218,178
6							$45,522,541	$3,282,541	$3,282,541	$3,282,541	$3,282,541
7								$45,738,192	$3,348,192	$3,348,192	$3,348,192
8									$45,895,156	$3,415,156	$3,415,156
9										$45,993,459	$3,483,459
10											$46,023,128
IRR		**18.71%**	**13.59%**	**11.93%**	**11.10%**	**10.61%**	**10.22%**	**10.00%**	**9.83%**	**9.71%**	**9.61%**
Imputed Cap Rate		**7.257%**	**7.334%**	**7.420%**	**7.514%**	**7.619%**	**7.771%**	**7.899%**	**8.039%**	**8.194%**	**8.366%**

Source: Waronzof

We see in the above table that the imputed cap rate from the transaction lies well within market range, as well as does the IRR indication – but for years 1 and 2.

Purchase Option Price Conclusion – Escalating Rent Premise

In the table below, we summarize our conclusion of option price under an escalating lease premise, and include as well, a "smoothed" version of the price amount (that simply averages the annual increase between Year 1 and Year 10).

Option Purchase Price Conclusion

Year	1	2	3	4	5	6	7	8	9	10
Option Price	**$40,970,000**	**$41,350,000**	**$41,690,000**	**$41,990,000**	**$42,240,000**	**$42,240,000**	**$42,390,000**	**$42,480,000**	**$42,510,000**	**$42,470,000**
Imputed Cap Rate	7.257%	7.334%	7.420%	7.514%	7.619%	7.771%	7.899%	8.039%	8.194%	8.366%
Project IRR	18.71%	13.59%	11.93%	11.10%	10.61%	10.22%	10.00%	9.83%	9.71%	9.61%
Option Price Change		$380,000	$340,000	$300,000	$250,000	$0	$150,000	$90,000	$30,000	-$40,000
Smoothed	**$41,000,000**	**$41,166,666**	**$41,333,332**	**$41,499,998**	**$41,666,664**	**$41,833,330**	**$41,999,996**	**$42,166,662**	**$42,333,328**	**$42,500,000**
Change		$166,666	$166,666	$166,666	$166,666	$166,666	$166,666	$166,666	$166,666	$166,672

Source: Waronzof

Purchase Option Calculations – Level Rent Premise

Under the level rent premise, rent paid by the tenant is constant for each of the ten years of the lease. This has the financial affect of causing higher rents in the early years of the lease, and corresponding lower rents in later years. The aggregate rents paid during the ten year period are financially equivalent.

Because of the pattern of rents and due to the affects of taking the time value of money into account, in early years of the investment, more net income is available to provide an investment return. This has the effect of slightly lowering the purchase option price during the term of the option agreement.

Purchase Option Price Conclusion – Level Rent Premise

The following are our conclusions of option price under the level rent premise, following the same process and logic illustrated above.

Year	1	2	3	4	5	6	7	8	9	10
Option Price	**$40,690,000**	**$40,870,000**	**$41,060,000**	**$41,250,000**	**$41,450,000**	**$41,460,000**	**$41,680,000**	**$41,920,000**	**$42,180,000**	**$42,450,000**
Imputed Cap Rate	7.901%	7.867%	7.830%	7.794%	7.756%	7.755%	7.714%	7.670%	7.622%	7.574%
Project IRR*	17.77%	13.06%	11.55%	10.81%	10.37%	10.09%	9.89%	9.75%	9.64%	9.55%
Option Price Change		$180,000	$190,000	$190,000	$200,000	$10,000	$220,000	$240,000	$260,000	$270,000
Option Price Smoothed	**$40,690,000**	**$40,885,000**	**$41,080,000**	**$41,275,000**	**$41,470,000**	**$41,665,000**	**$41,860,000**	**$42,055,000**	**$42,250,000**	**$42,450,000**
Option Price Change		$195,000	$195,000	$195,000	$195,000	$195,000	$195,000	$195,000	$195,000	$200,000

* Before Lump Sum Adjustment

Source: Waronzof

Addenda

WARONZOF ASSOCIATES, INC.

land economics

Waronzof Associates, Inc. is a Los Angeles-based land economics and real estate consulting firm formed in early 2000. The firm provides land economics and real estate consulting services to private, public institutional and fiduciary clients in four service areas – Consulting, Complex Valuation, Litigation Support and Asset Management. Land economics is the study of land and its improvements in terms of its productivity, profitability and utility for a specific use. We consider the properties and problems we encounter in the context of their surroundings and economic relationships – private or public, direct or indirect and monetary or non-monetary. Waronzof's four service areas cover the lifecycle of real property – from acquisition and development through management and operation until disposition or re-development.

The elements common to each of the service areas are the analytical tools of the real estate industry – property analysis, market analysis, real estate finance, operations, due diligence and strategy. These tools are fundamental to each service area, but are used in different ways and contexts. The specific work undertaken for a particular assignment depends upon the objectives for the project, client needs, industry practices and regulatory requirements. Waronzof's professional staff includes individuals with long industry experience, advanced degrees in business, urban planning and related disciplines, as well as memberships in industry groups such as The Appraisal Institute, The Counselors of Real Estate, Urban Land Institute and similar organizations.

Our clients consist of private companies, institutions, non-profits and the public sector. Since its formation, Waronzof has served entities such as ***Kilroy Realty Corporation***, a publicly-trade REIT, the ***Worldwide Church of God***, an international religious organization, the ***City of Long Beach Redevelopment Agency*** and ***Gibson, Dunn & Crutcher***, an international law firm. We have consulted on or value properties such as ***SBC Park*** – home of the San Francisco Giants, ***South Coast Plaza*** – one of America's most successful shopping complexes, - ***Ambassador Campus*** – the mixed use redevelopment of a former college campus in historic Pasadena, Ca. and evaluated redevelopment projects throughout the City of Long Beach.

Waronzof relies upon the use of a variety of resources and specialized forms of analysis to accomplish its consulting and advisory work. Among these resources are the following: extensive use of financial modeling and project analysis software, including Excel, Access, Microsoft Project, Argus and Pro-ject; the use of geographic information systems ("GIS") (computerized mapping analysis) such as MapInfo and Arcview for project and market analysis; and the use of databases of financial, legal, real estate and market information through sources such as Westlaw, Thomson Financial SDC, Dialog, Dunn & Bradstreet, Investext, Metroscan, Costar. and other data providers. As an adjunct to its consulting activities related to property acquisition and disposition, and in compliance with California law, Waronzof has as an affiliate, Waronzof Realty, Inc., which is a licensed real estate broker. Waronzof Realty, Inc. does not undertake or provide conventional agency services, but allows Waronzof to provide certain acquisition or disposition services.

Waronzof Associates also maintains alliances with other professional service providers providing public accounting, tax, finance, systems consulting, litigation support and real estate and business valuation services. We maintain close alliances with three firms in particular – ***The Muldavin Company, Inc.***, ***Discovery Economics*** and ***Barrett Sports Group LLC***. These firms provide consulting in real estate finance and economics, litigation support and accounting, and specialized consulting and advisory services for sports and entertainment facilities.

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As Principal with Waronzof, Mr. Lowe is responsible for directing real estate consulting and valuation engagements including strategy and best practice analyses, market and highest & best use studies, market value and fair compensation appraisals; acquisition due diligence; economic feasibility analysis; and advanced financial analyses for large-scale project development. Mr. Lowe's practice includes emphasis in litigation, investment analysis and counseling. His experience includes appraisal and consulting engagements across the continental United States, Alaska and Hawaii, Canada and Argentina, and includes such notable properties and projects as the West Edmonton Mall (Edmonton), South Coast Plaza Shopping Center (Costa Mesa), SBC Park (home to the San Francisco Giants), Belmont Learning Center (Los Angeles), the Kapolei City development in Hawaii, the Tren de la Costa project in Buenos Aires, a 5 million acre natural resource portfolio in Washington State, Ambassador College (Pasadena) redevelopment, Two Wall Street (New York), Boeing Field (Seattle), the Skywalker Ranch facility of director George Lucas (San Francisco), the three million square foot Air Force Plant #19 (San Diego), the 40 mile long Peninsula Commute Rail Corridor (San Francisco to San Jose), and the 4,000 acre Girdwood Development & Disposal Plan project (Anchorage).

Prior to founding Waronzof, Mr. Lowe was a Director in the Real Estate Consulting and Litigation Practice with Deloitte & Touche in Los Angeles, and earlier a Vice President and Chief Appraiser with Arthur Gimmy International in San Francisco. He began his career as an appraiser and consultant in Anchorage. Mr. Lowe has been accepted as an expert witness in state and federal courts in the areas of real estate and going concern valuation, project feasibility and plan feasibility. Mr. Lowe is a designated member of the Appraisal Institute (MAI), a member of The Counselors of Real Estate (CRE) and a Fellow of the Royal Institute of Chartered Surveyors (FRICS). Additionally Mr. Lowe is an associate member of the Urban Land Institute and a member of Lambda Alpha, the Land Economics Society.

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